California Housing Loan Insurance Fund Ratings Lowered To 'CCC-' Because Of Significant Decline In Capital

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View Analyst Contact information

- California Housing Loan Insurance Fund's delinquencies and losses have continued to rise rapidly through September 2009, and we expect them to continue to rise.
- This has led to a significant erosion of the organization's surplus to $0 or slightly negative as of Dec. 31, 2009.
- As a result, we have lowered the ratings on CaHLIF to 'CCC-' from 'BBB'.
- The ratings remain on CreditWatch with negative implications to reflect the potential exhaustion of CaHLIF's claims-paying resource by the end of 2010.

NEW YORK (Standard & Poor's) Jan. 21, 2010--Standard & Poor's Ratings Services said today lowered its counterparty credit and financial strength ratings on California Housing Loan Insurance Fund (CaHLIF) to 'CCC-' from 'BBB'. These ratings remain on CreditWatch, where they had been placed on Oct. 27, 2009, with negative implications.

"We believe that CaHLIF is likely facing negative net worth and ultimately might not have the resources necessary to pay mortgage insurance claims without additional cash infusions," said Standard & Poor's credit analyst Ron Joas. Given the state-sponsored nature of the entity, any such cash infusions beyond the $10 million line of credit from the California Housing Finance Agency (CalHFA) would likely require action by the California state legislature and, as such, are unlikely to occur in the near term.

The three-category downgrade of CaHLIF primarily reflects the rapid erosion of the organization's capital, which stemmed from the substantial rise in mortgage delinquencies and the expectation of further losses. CaHLIF's delinquencies rose to 18.5% at the end of the third quarter of 2009 from 8.6% as of Dec. 31, 2008. At the same time, operating losses rose to $42.5 million as of Sept. 30, 2009, from approximately $16.9 million as of Dec. 31, 2008, and surplus declined to $11.9 million from $53.6 million (including $25.9 million in contingency reserves) over this same period. No contingency reserves remained as of the end of the third quarter. The nature of CaHLIF's portfolio--which is overly weighted in ultra-high loan-to-value, interest-only, condominium, and geographically concentrated loans--resulted in high delinquency rates that have not moderated as we had expected.

The magnitude and trend of operating losses is such that we believe CaHLIF's surplus for year-end 2009 could be $0 or somewhat negative, which calls into question whether CaHLIF will be able to pay all mortgage insurance claims that develop from its current book of business. CaHLIF effectively ceased writing new business in early 2009. Therefore, it is unable to benefit from the tighter underwriting conditions and higher pricing in the mortgage insurance sector since the second half of 2008.

Standard & Poor's believes CaHLIF has limited sources of additional capital, particularly because it would have to obtain legislative approval to receive new capital or redirect capital from other funds. In addition, the State of California's current budgetary restrictions appear to make it unlikely that the state could use other sources of funding in the near term to recapitalize CaHLIF. As a result, we have not ascribed any support to CaHLIF from its relationship with the California Housing Finance Agency (CalHFA).

We have kept the ratings on CreditWatch negative. "We will likely lower the ratings again if we believe that CaHLIF's claim-paying resources will be exhausted by the end of 2010," Mr. Joas added. "We will likely affirm the ratings if claim payments moderate or if CaHLIF receives further funding through legislation or other sources."

RELATED RESEARCH

- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009.
- Interactive Ratings Methodology, April 22, 2009.

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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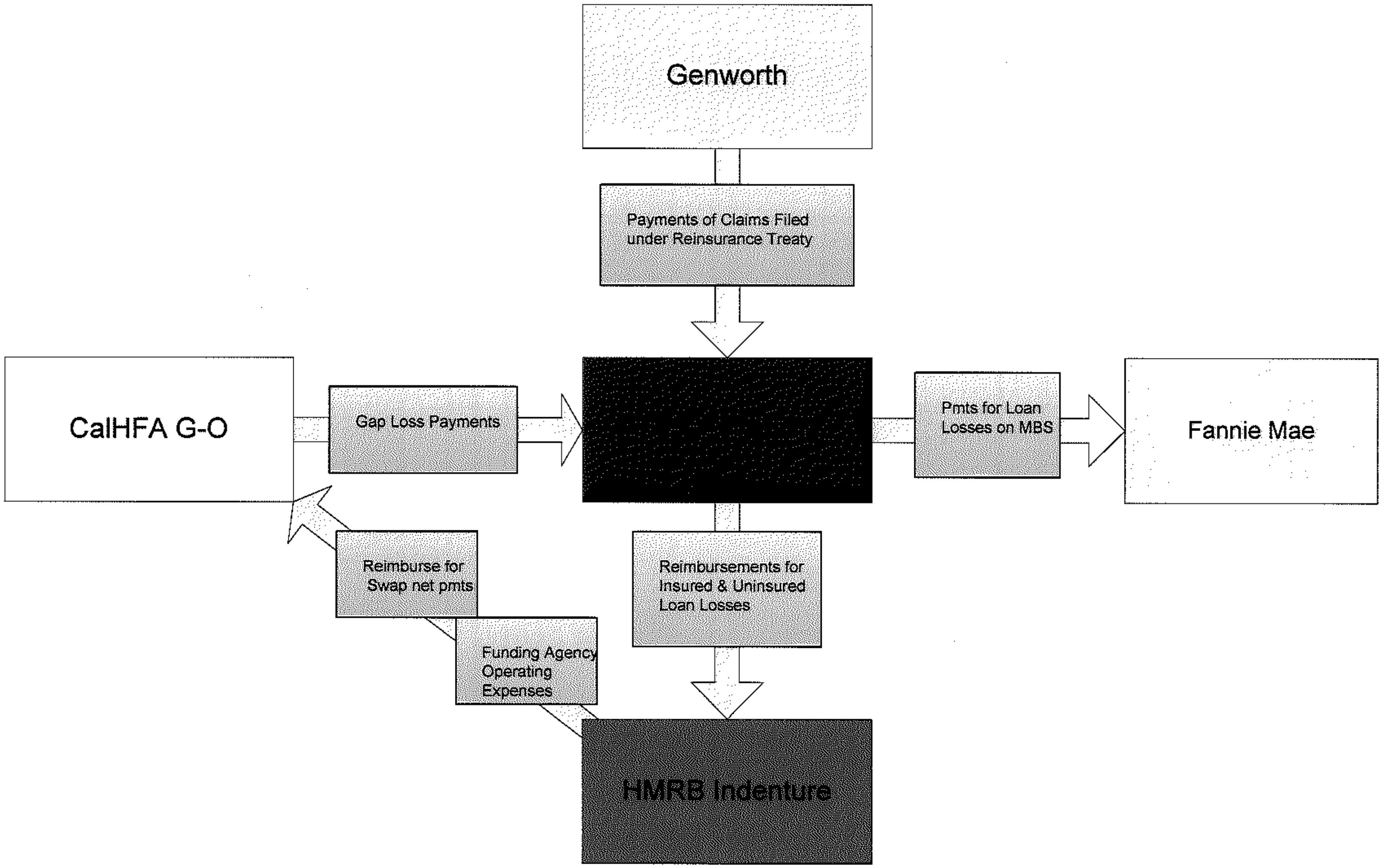
Relationships among the three main CalHFA entities: CalHFA G-O, CalHFA MI Fund, and HMRB



California Housing Finance Agency

CalHFA

CalHFA Board Meeting

January 21, 2010

California Housing Finance Agency

CalHFA

Agenda 5:
Financing Resolution – Single Family

California Housing Finance Agency

CalHFA

Resolution 10-01

- Board annually authorizes Staff to
  - Issue bonds
  - Utilize previously Approved Bond Indentures
  - Decide timing and structure
- Amounts Not to Exceed
  - Eligible bond principal being redeemed in connection with new bond issuance; plus
  - CDLAC Allocation; plus
  - Up to $900 million of taxable bonds
- Available CDLAC Allocation
  - $1.2 billion for use by 12/31/2010
  - $450 million for use by 12/312011
  - $225 million for use by 12/31/2012

Resolution 10-01 (Continued)

- Reauthorizes Staff to Utilize Related Financial Agreements for:
  - Investment of Bond Proceeds
  - Hedging of Interest Rates
  - Consulting Services, Financial Advisors, Etc.
- Reauthorizes Short-Term Credit Facilities up to an aggregate of $1 billion for:
  - Warehousing Mortgages (both Multifamily and single Family)
  - Operating Capital
- Reauthorizes all Program Documents and Program Agreements related to Homeownership Lending Programs

Resolution 10-01 (Continued)

- Single Family Bond Financing Plans
  - Issued $1.0 billion under NIBP in December 2009
  - Requires additional issuance of bonds in Public Markets to Private investors
  - NIBP Proceeds Initially held in Escrow
  - Proceeds Released on up to 3 dates from NIBP Escrow upon Issuance of Market Bonds in the following ratio:
    - $3 of NIBP proceeds (60%)
    - for each $2 of Market Proceeds (40%)
  - Residential Mortgage Revenue Bond Indenture requires Proceeds to be used to purchase Mortgage Backed Securities

Agenda 6:
Financing Resolution – MultiFamily

California Housing Finance Agency

CalHFA

Resolution 10-02

- Authorizes Staff to:
  - Issue bonds
  - Utilize previously Approved Bond Indentures
  - Determine timing and structure
- Amounts not to exceed
  - Eligible bond principal being redeemed in connection with new bond issuance; plus
  - CDLAC Allocation; plus
  - Up to $800 million of 501(c)(3) and/or taxable bonds
- Available CDLAC Allocation
  - $200 million for use by 12/31/2012

California Housing Finance Agency

CalHFA

Resolution 10-02 (Continued)

- Reauthorizes Staff to Utilize Related Financial Agreements for:
  - Investment of Bond Proceeds
  - Hedging of Interest Rates
  - Consulting Services, Financial Advisors, Etc.
- Reauthorizes Short-Term Credit Facilities up to an aggregate of $1 billion for:
  - Warehousing Mortgages (both Multifamily and single Family)
  - Operating Capital
- Reauthorizes all Program Documents and Program Agreements related to Multifamily Lending Programs

California Housing Finance Agency

CalHFA

Resolution 10-02 (Continued)

- Multifamily Bond Financing Plans
  - Issued $380 million under NIBP in December 2009
  - NIBP Proceeds Initially held in Escrow
  - Proceeds Released on up to 3 dates from NIBP Escrow
  - Affordable Multifamily Housing Revenue Bonds requires Proceeds to be used to purchase loans
    - Insured by FHA
    - Guaranteed by Fannie Mae or Freddie Mac
    - Underwritten to GSE Guidelines

California Housing Finance Agency — CalHFA

Agenda 7:
Financing Resolution – CDLAC Application

California Housing Finance Agency — CalHFA

Authorize Staff to Apply to the California Debt Limit Allocation Committee Resolution 10-03

Application would be limited to:

- Single Family Bonds $900 Million
- Multifamily Bonds $400 Million

California Housing Finance Agency — CalHFA

History of CDLAC Allocation to CalHFA

			MULTIFAMILY ALLOCATIONS			SINGLE FAMILY ALLOCATIONS		
Year	Volume Cap for all Programs		All Multifamily	To CalHFA	% of Volume Cap	All Single Family	To CalHFA	% of Volume Cap
2005	$2,871,503,920		$1,669,700,000	$168,155,000	5.9%	$646,000,000 *	$1,015,521,544	35.4%
2006	$2,890,571,760		$1,635,000,000	$56,550,000	2.0%	$610,000,000 *	$618,025,729	21.4%
2007	$3,098,831,665		$1,740,891,666	$39,940,000	1.3%	$640,000,000	$485,257,154	15.7%
2008	$3,107,023,275		$1,722,023,275	$132,920,000	4.3%	$610,000,000	$450,000,000	14.5%
2008	$1,144,564,324	**	$194,575,935	$0	0.0%	$949,956,309	$878,361,228	76.7%
2009	$3,309,099,940		$532,652,993	$199,920,000	6.0%	$500,000,000	$225,000,000	6.8%

* Includes MRBs and Extra Credit Teacher Home Purchase Program
** HR 3221 Special Allocation

Agenda 8:
Financing Resolution – Bay Area Housing Plan

Resolutions in Connection with Bay Area Housing Plan
Resolution 10-04
Background

- Bay Area Housing Plan was authorized by the California Legislature
- The legislation is designed to facilitate the closure of Agnews Center and to transition approx. 228 individuals currently residents at Agnews into community based housing located throughout the San Francisco Bay Area
- Agnews was one of five developmental centers in the State that provide programs, treatment and supervision for residents in a 24-hour structured health care facility

Resolutions in Connection with Bay Area Housing Plan
Resolution 10-04
History of Board Actions

- Resolution 06-06, adopted by the Board on 1/12/06 allowed for the sale and issuance of CalHFA bonds for the purpose of financing loans in connection with the Bay Area Housing Plan
- Resolution 07-28, adopted by the Board on 9/12/07 authorized a one year extension and the Bay Area Housing Program Bonds Indenture
- Resolution 08-44, adopted by the Board on 11/13/08 authorized a one year extension and authorized bonds to bear interest at a stated rate of up to 25% per annum

Resolutions in Connection with Bay Area Housing Plan
Resolution 10-04
New Board Action

- Resolution 10-04 would authorize a one year extension for the issuance of bonds in connection with the Bay Area Housing Plan and which would not expire until 30 days after the first Board meeting in 2011 at which there is a quorum

- Current BAHP portfolio:
- 60 total loans
- Outstanding loan balance of $91.8 million

- All current BAHP loans funded from Revolving Credit Account with Bank of America

Agenda 9:
Bond Portfolio, Financial Results, and Loan Portfolio Performance

Temporary Credit Liquidity Program ("TCLP")

- The Agency substituted $3.4 billion of SBPAs with TCLFs over six different mandatory tender dates in January

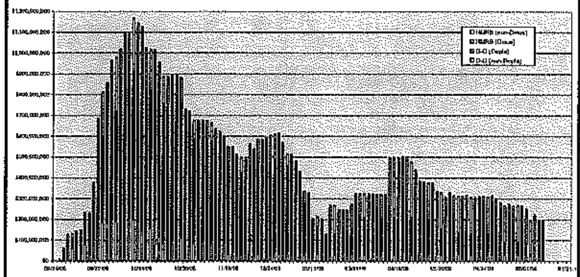
- These substitutions significantly improve the short-term and long-term viability of the Agency for four reasons:
  - Eliminate near-term roll-over risk
    - Replace $197 million of expired facilities
    - Replace $2 billion of expiring facilities in 2010
  - Eliminate accelerated repayments for bank bonds
    - In 2009, repaid $16 million due to acceleration
  - Restore the reimbursements from a special obligation entity to a general obligation entity
    - On 2/1/10, the total expected reimbursement is $118 million
  - Eliminate higher cost of capital caused by credit impairments
    - Approximately, $16 million of net savings over three years

California Housing Finance Agency

CalHFA

History of bank bonds from 9/14/08 to 1/21/10

(Lehman filed bankruptcy on 9/14/08)



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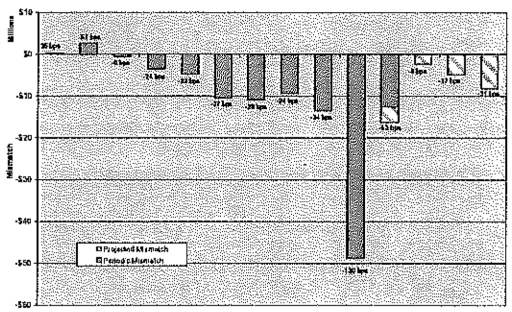
Agency's actual and projected basis mismatch



California Housing Finance Agency

CalHFA

CalHFA's debt portfolio as of 10/1/09 and 2/1/10

	As of 10/1/09 AMBAC FGIC MBIA	FSA	uninsured	Total		As of 2/1/10 AMBAC FGIC MBIA	FSA	uninsured	Total
Variable-rate bonds									
Auction-Rate	$46	$138		$184		$46	$124		$170
VRDOs									
- AMBAC/MBIA	$46			$46					
- Dexia		$384	$364	$748					
- Depfa			$87	$87					
- Expired SBPA			$197	$197					
- Remaining		$165	$2,436	$2,601	- TCLP			$3,484	$3,484
Index Floaters	$557	$236	$269	$1,062		$553	$229	$232	$1,014
NIBP Escrow								$1,397	$1,397
Fixed-rate bonds	$880	$135	$1,938	$2,953		$847	$133	$1,974	$2,954
	$1,528	$1,058	$5,291	$7,878		$1,446	$486	$7,086	$9,018

California Housing Finance Agency (CalHFA)
Housing Finance Fund

Balance Sheet as of September 30, 2009			
ASSETS		**LIABILITIES AND EQUITY**	
Cash and Investments	$ 2,012,208,363	Bonds Payable	$ 8,024,397,922
Loan Receivable, net	8,140,614,104	Other Liabilities	665,632,635
Other Assets	218,028,143	Equity	1,680,820,052
Total Assets	$ 10,370,850,609		$10,370,850,609

California Housing Finance Agency (CalHFA)
Housing Finance Fund

Revenues, Expenses, and Changes in Fund Equity as of September 30, 2009			
OPERATING REVENUES		**OPERATING EXPENSES**	
Interest Income program loans, net	$ 102,684,300	Interest	$ 97,456,911
Interest Income Investments, net	9,785,569	Mortgage servicing fees	4,365,143
Increase in fair value of investments	2,365,693	Operating expenses	7,759,875
Other loan and commitment fees	6,230,423	Other expenses	111,180,046
Other revenues	23,047,905		
Total Operating Revenues	$ 144,113,890	Total Operating Expenses	$ 220,761,975
Operating Income (Loss) before transfers			**($76,648,085)**

Components of the Operating Loss

- Increase in allowance for loan losses: $26.3 million
- Basis mismatch: $11.3 million
- Termination of interest rate swaps: $39 million

Total $76.6 million

California Housing Finance Agency (CalHFA)
Housing Finance Fund

RESERVES FOR DELINQUENT LOANS AND
REAL ESTATE OWNED (REO)

	Dec-08	Mar-09	Jun-09	Sep-09
CaHLIF Primary Loss Reserves	$ 25,994,560	$ 34,684,531	$ 44,946,593	$ 56,788,141
Genworth Loss Reserves (estimated)	76,636,562	102,133,358	131,472,256	161,658,603
GAP Insurance Loss Reserves *	44,906,156	61,973,985	60,132,566	106,442,883
Loan Loss Reserves (RMRB only)	11,065,801	12,051,018	13,617,480	14,843,361
REO – Estimated Losses	5,639,632	8,931,396	15,039,806	18,377,726
Total Reserves	$ 164,236,546	$ 220,774,284	$ 265,208,402	$ 357,891,298

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

Agenda 10:
Business Plan Update

Homeownership Business Plan Update – Jan 2010

- Focus Group Meetings on below three First Mortgage Products: scheduled with Loan Officer/Realtors/Lender Corp Contacts: Jan 12th/13th and Jan 15th/16th
- Two First Mortgage Products – Anticipate roll-out March/April 2010.
  - Both 30-year fixed rate fully amortizing loans
  - FHA – Up to a Max 96.5% LTV
  - Conventional loans
    - Fannie Mae up to a Max 100% LTV with Fannie Mae MI
- Downpayment Assistance
  - Focus Group – DPA is very important
- Volume – Too early to tell
- MBS Business Model and with a Master Servicer

California Housing Finance Agency CalHFA

Multifamily

- Multifamily Business Models:
  - Continue lending on MHSA program
  - TCAC consulting/underwriting roll to assist the roll out of ARRA funds into tax credit projects
  - Focus on New Production/Loans through the HFA New Issuance Bond Program (NIBP) which will include;
    - Loans guaranteed by Fannie Mae or Freddie Mac
    - FHA risk share
    - Preservation Program to finance at risk projects in CalHFA's portfolio

California Housing Finance Agency CalHFA

Asset Management Update

- Over 500 properties to oversee
- HUD imposed greater subsidy oversight responsibilities on all its contract administrators (8,952 CalHFA Section 8 units)
- Earned Surplus funds remain available for Section 8 rehab. No funds requested this FY to date
- Concerns:
  - Short staffed. 32 budgeted positions. 6 vacant. Several retirements loom over next 12-24 months
  - 51 Section 8 properties have loans that terminate between now and 2015. Most in 2013.
    - Many owners want equity-take out-refinance vs. sale

California Housing Finance Agency CalHFA

2010 Focus for Asset Management

- PBCA – Performance Based Contract Administration Bid Status
  - HUD delay in publishing RFP. Expect to start process in February-March
  - Sub-contractor to agency to be selected this month
- Citibank loan sale
  - 33 properties, loan value approx $100M
  - Due Diligence in January
  - Close before March

Agenda 11:
Sacramento Office Relocation Update

Loan Servicing Relocation

- Facility Facts:
  - Address: 1040 Riverside Parkway, West Sacramento
  - Total Square Footage: 16,533
  - Terms: 5 years; 4 months free rent; $13,722 (0.83 per square feet) base rent per month triple net
  - Free Parking
- Critical Dates:
  - Move In Date: February 5, 2010
  - First Day of Business: February 8, 2010
  - Opening Ceremony: February 25, 2010
- Highlights:
  - On Budget with Great Lease Term
  - New Call Center System
  - Online Payment System
  - Staffing Up (Supervisors and Permanent Staff verses Temporary)
  - Consolidation of Staff With Room to Grow (Full Service)
  - Extended Hours (6 Days a Week: M-F 8am-7pm, Sat 8am-12pm)

Agency Headquarters Move

- Objective:
  - Consolidate Headquarters
  - Location must be within the City of Sacramento
  - 70,000 to 80,000 square feet of Class A LEED certified
  - Ample parking; proximity to Light Rail and Public Transit
- Critical Dates:
  - Senator Hotel lease expires August 31, 2010
  - Meridian lease expires September 30, 2010
- Location Options:
  - Senator Hotel (1121 L Street)
  - Meridian (1415 L Street)
  - Bank of the West Tower (500 Capitol Mall)
  - Natomas Gateway Tower East (2020 West El Camino Avenue)