RESOLUTION 10-06

TWO-YEAR BUSINESS PLAN

FISCAL YEARS 2010/2011 AND 2011/2012

WHEREAS, pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), the California Housing Finance Agency ("Agency") has the authority to engage in activities to reduce the cost of mortgage financing for home purchase and rental housing development, including the issuance of bonds and the insuring of mortgage loans;

WHEREAS, the Agency's statutory objectives include, among others, increasing the range of housing choices for California residents, meeting the housing needs of persons and families of low or moderate income, maximizing the impact of financing activities on employment and local economic activity, and implementing the objectives of the California Statewide Housing Plan;

WHEREAS, the Agency desires to amend Resolution 09-11 adopted on July 9, 2009, which committed the Agency to a Business Plan for the fiscal years 2009/10 through 2010/11;

WHEREAS, the current global credit crisis and the continuing uncertainty in California economy and real estate markets continue to present financial challenges for the Agency;

WHEREAS, the Agency must minimize additional real estate related risk and preserve liquidity for operating expenses and financial obligations;

WHEREAS, the Agency has presented to the Board of Directors a Two-Year Business Plan covering fiscal year 2010/2011 and 2011/2012, with case based scenarios to adjust to the ever changing economic, fiscal and legal environment, which updated Business Plan is designed to assist the Agency to meet its financial obligations, its statutory objectives, support the housing needs of the people of California and to provide the Agency with the necessary road map to reemerge from this crisis as a leading affordable housing lender providing bond financing, mortgage financing, and mortgage insurance activities well into the future.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Agency as follows:

1. The updated 2010/2011 and 2011/2012 Business Plan, as represented by the written presentation attached hereto and made a part hereof, and any additional presentations made at the meeting, is hereby fully endorsed and adopted.

2. In implementing the updated Business Plan, the Agency shall strive to satisfy all the capital adequacy, liquidity reserve, credit and other reserve and any other requirements necessary to maintain the Agency's general obligation credit ratings and the current credit

ratings on its debt obligations, to comply with the requirements of the Agency's providers of credit enhancement, liquidity, and interest rate swaps and to satisfy any other requirements of the Agency's bond and insurance programs.

3. Because the updated Business Plan is necessarily based on various economic, fiscal and legal assumptions, for the Agency to respond to changing circumstances, the Executive Director shall have the authority to adjust the Agency's day-to-day activities to reflect actual economic, fiscal and legal circumstances in order to attain goals and objectives consistent with the intent of the updated Business Plan.

I hereby certify that this is a true and correct copy of Resolution 10-06 adopted at a duly constituted meeting of the Board of Directors of the Agency held on May 12, 2010, at Burbank, California.

ATTEST:

Secretary

California Housing Finance Agency

# Fiscal Years 2010/11 and 2011/12 Two-Year Business Plan

Presentation to CalHFA Board of Directors
May 12, 2010

Cal HFA
*Affordable Housing is our Business*

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California Housing Finance Agency — CalHFA

## Existing Challenges/Existing Resources

- Current Challenges
  - Single family loan delinquencies, foreclosures, REO inventory and associated losses;
  - Pressures on Agency Liquidity including access to short term lines of credit;
  - Credit rating downgrades and pressure for further downgrades.
- Resources/Opportunities
  - Fannie Mae's Affordable Advantage Program;
  - New Issue Bond Purchase Capital;
  - $700 million in "Hardest Hit Funds";
  - High affordability and CA tax credit for first-time homebuyer.
- Future Challenge
  - Viable tax-exempt housing bond market.



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California Housing Finance Agency — CalHFA

## Overview of Long Range Plans

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Survive<br>• Maintain credit ratings<br>  • Manage and improve liquidity<br>  • Improve capital structure<br>• Mitigate loan losses<br>• Renewed lending at modest levels<br>• Renew and strengthen old partnerships | | | | | |
| | | Revive<br>• Lending in moderate volume<br>• Return to profitability<br>• New business opportunities<br>• Improved business systems and management information | | | |
| | | | | Thrive<br>• Lending in substantial volume<br>• Improving profitability structure<br>• Recharging reserves<br>• Funding Agency programs | |



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California Housing Finance Agency — CalHFA

## Challenges to Reviving and Thriving

- Inability to lend at old volume levels with the mortgage revenue bond business model:
  - Lending activity beyond the New Issue Bond Program is dependent on the following factors;
  - Dependent on a tax-exempt housing bond market that results in a cost of funds that allows the Agency to offer competitive rates to borrowers;
  - Dependent on sufficient tax-exempt debt allocation from CDLAC;
  - Dependent on demand for low-income housing tax credits.
- Major effort to explore additional business models:
  - Other partners such as GSEs and Local governments;
  - New Platforms for lending.



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California Housing Finance Agency — CalHFA

## Five Major Priorities for the Business Plan Period

- Maintaining Credit Ratings
  - Have already taken some steps
- Loss Mitigation
  - Multifaceted: loan modifications, short sales, foreclosures, REO management
- Renew Lending Activities
  - Single family and Multifamily lending using the NIBP
- Renew and Strengthen Old Partnerships
  - Local governments and non-profits
  - Genworth Mortgage Insurance
- Explore New Business Models
  - Probably needed for reviving and thriving
  - May need new business partners and/or new roles



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California Housing Finance Agency — CalHFA

## Operating Environment

## Economic Forecast and other assumptions

- California economy will improve slowly
  - CA unemployment falls below 10% in 1st Qtr 2012
  - Residential building permits exceed 146,000 in 3rd Qtr 2011
- Interest rate forecast
  - Ten year Treasuries:
    - 1st Qtr 2011: 4% +
    - 2nd Qtr 2012: 4.5% +
  - Conventional Mortgage Rates:
    - June 2011: 5.50% +
    - June 2012: 6.00% +
  - HFA revenue bond costs trend at a spread to 10-yr Treasury
    - Increase in bond cost during spring 2011 after expiration of NIBP
    - HFA fixed rate MRBs issued in 2011 produce loan rates with negligible rate differential to conventional mortgage market
- Current interest rate projections will limit bond financed lending in FY 2011/2012





## Economic Forecasts

| | 2010/11 | | | | 2011/12 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **Interest Rate Forecast** | | | | | | | | |
| 10 year maturity-US Gov't bond yields | 3.87% | 3.97% | 4.13% | 4.26% | 4.46% | 4.57% | 4.47% | 4.55% |
| Fed Funds Rate+ | 0.25% | 0.33% | 0.50% | 0.77% | 1.07% | 1.37% | 1.67% | 1.98% |
| Domestic Municipal Bonds | 4.58% | 4.57% | 4.65% | 4.73% | 4.80% | 4.86% | 5.02% | 5.16% |
| Housing Bond Cost | 4.02% | 4.05% | 4.60% | 4.77% | 4.84% | 4.85% | 4.95% | 5.03% |
| Conventional Mortgage Rate | 5.25% | 5.32% | 5.44% | 5.56% | 5.68% | 5.80% | 5.94% | 6.08% |
| **California Forecast** | | | | | | | | |
| California Unemployment | 11.80% | 11.30% | 10.90% | 10.50% | 10.20% | 10.00% | 9.80% | 9.60% |
| Residential Building Permits (in thousands) | 91 | 104 | 121 | 137 | 146 | 155 | 162 | 167 |
| **Single Family Program Information** | | | | | | | | |
| Loan Modifications (in number of loans) | 273 | 273 | 273 | 273 | 300 | 300 | 300 | 300 |
| Short Sales (in number of loans) | 234 | 234 | 234 | 234 | 234 | 234 | 234 | 234 |
| Foreclosures (in number of loans) | 489 | 463 | 567 | 463 | 446 | 446 | 363 | 349 |
| RED – Projected Sales (in number of loans) | 315 | 315 | 315 | 315 | 315 | 315 | 316 | 315 |
| **Multifamily Program Information** | | | | | | | | |
| Mental Health Services Act (MSHA) (in millions of dollars) | | | | | | | | |
| Final Commitments | $15 | $15 | $15 | $15 | $15 | $15 | $15 | $15 |
| Loan Closings/Previously Committed | $15 | $15 | $15 | $15 | $15 | $15 | $15 | $15 |





## Agency liquidity projection

- Preserve Agency Liquidity
  - Sufficient cash available to fund operating budget, fund existing loan commitments, fund bond issuance costs, support general obligation debt service payments and repay bank credit line
  - No HAT funds for downpayment assistance for single family lending or for preservation projects in multifamily lending;
  - Operate the Agency within our means
    - Ending liquidity balance slightly larger than beginning liquidity balance
- Optimize opportunities to enhance liquidity position
  - Ginnie Mae securitization and Citi transaction (see memos in Report Section)
- Assumptions
  - Limited additional collateral posted to swap counterparties
  - HMRB cashflows allow reimbursement of swap payments and semi-annual payments of 0.25% Admin Fee





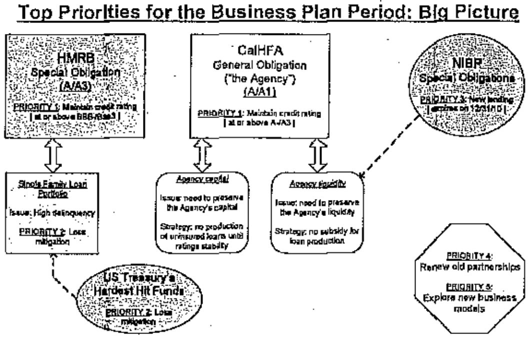
## Agency liquidity projection

| | 1-Jul-10 through 30-Jun-11 | 1-Jul-11 through 30-Jun-12 |
|---|---|---|
| **Beginning Balance** | 120,749,119 | 116,150,811 |
| **Sources Of Liquidity** | | |
| P&I Payments from Unencumbered Loan Portfolio | 36,876,793 | 34,617,178 |
| Administrative and Loan Servicing Fees & Other Income | 27,297,402 | 27,169,716 |
| Sale of Bay Area Housing Loans | 88,720,870 | - |
| **Total Estimated Liqudity** | 152,895,064 | 61,786,894 |
| **Uses of Liquidity** | | |
| Operating Expenses | 46,973,000 | 47,292,000 |
| Fund Existing Loan Commitments | 5,180,372 | - |
| Financing and Debt Service Related | 5,340,000 | 5,430,000 |
| Repayment of RCA | 100,000,000 | - |
| **Total Uses of Liquidity** | 157,493,372 | 52,722,000 |
| **Available Liquidity** | 116,150,811 | 125,215,705 |





## Top Priorities for the Business Plan Period: Big Picture



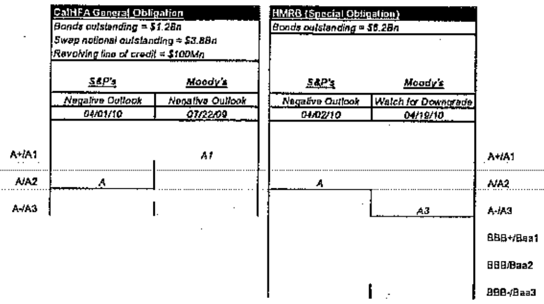





## Priority 1

**Maintain credit ratings**

## Maintain credit ratings








## Ongoing Ratings Issues

- Loss Mitigation
  - This is Priority Two of the Agency and is discussed in the next section;
  - Hardest Hit Funds, Increased Staffing, More Aggressive resolution of borrower defaults – workouts, loan modifications, short sales.
- Management of Agency Liquidity
  - No HAT funds for downpayment assistance for single family lending or for preservation projects in multifamily lending;
  - Increasing liquidity when opportunities arise – e.g., Ginnie Mae securitization, Citi transaction (see memos in Report Section)
- Management of Agency Commitment of Capital
  - Limiting Multifamily lending in both construction and permanent financing
- Continued improvement of Agency Capital Structure
  - Reduction of variable rate debt and no new issuance of variable rate bonds
  - Aggressively manage counterparty relationships





## Priority 2

## Loss Mitigation





## Current Delinquency Situation

| | FHA | | Conventional | |
|---|---|---|---|---|
| | # | Amount | # | Amount |
| **Total Delinquency** | 2,417 | $ 425,346,623 | 2,541 | $ 668,536,826 |
| **90 Day+ Delinquent Loans** | 1,599 | $ 309,317,794 | 1,856 | $ 498,343,676 |
| **Loans In Foreclosure** | 546 | $ 106,078,625 | 889 | $ 233,037,867 |
| **REO** | 202 | $ 42,578,529 | 792 | $ 189,244,946 |
| ***Total (current & delinquent)*** | *14,400* | | *16,300* | |

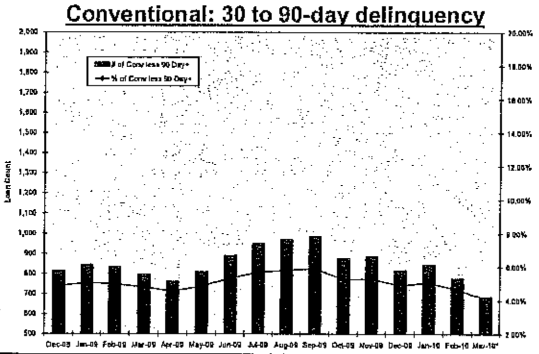
**Loan Modifications**

| | |
|---|---|
| **Applications received by Servicer** | 615 |
| **Approved by Underwriting** | 363 |
| **Executed** | 169 |





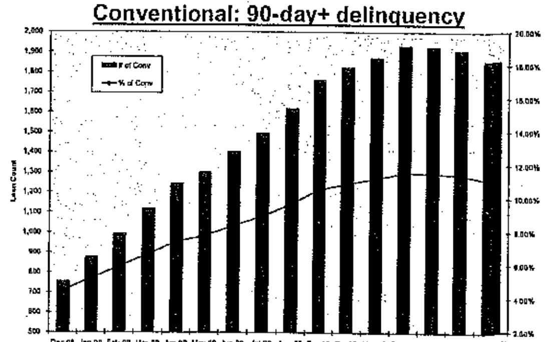
## Conventional: 30 to 90-day delinquency








## Conventional: 90-day+ delinquency



## Loss Mitigation

- Hardest Hit Funds ($700Mn)
  - Operational by 9/30/10
  - All CalHFA borrowers with hardship will qualify
- Faster resolution of borrower defaults;
  - Increased staffing levels – workouts, loan modifications, short sales, FHA claims, and MI claims;
  - Improved communication with loan servicers
- Loan Modifications
  - With HHF applications will increase dramatically
- Short Sales
  - More aggressive resolution of short sales
- REO
  - Increased staffing levels as REO inventory grows
  - Adding one to two new master brokers





## Priority 3

**New lending in 2010**





## Single family

- Drivers of lending in 2010:
  - Fannie Mae's Affordable Advantage Program (100% LTV)
  - New Issue Bond Purchase Program
    - Upon successful sale of Market Bonds (40% of the financing), the U.S. Treasury will fund up to $1 billion of long-term bonds
    - Expected mortgage rate of 5.00%
  - State income tax credit for first-time homebuyers
  - High affordability





## Single family: projected production volume

| | | FY 2010/2011 | | FY 2011/2012 | |
|---|---|---|---|---|---|
| Program | | 1st Mtg | 2nd Mtg | 1st Mtg | 2nd Mtg |
| FHA | 98.5% LTV 1st | | | | |
| *Worse Case* | | $42Mn | | $300Mn | |
| *Best Case* | | $126Mn | | $650Mn | |
| CalHFA Fannie Mae Advantage | *100% LTV 1st* | | | | |
| *Worse Case* | | $300Mn | | $0Mn | |
| *Best Case* | | $650Mn | | $0Mn | |
| 30-yr Conventional | 95% LTV 1st | | | | |
| *Worse Case* | | $0Mn | | $100Mn | |
| *Best Case* | | $0Mn | | $205Mn | |
| CHDAP | *Subordinate* | | | | |
| *Worse Case* | | | $8Mn | | $20Mn |
| *Best Case* | | | $16Mn | | $26Mn |
| SFF (School Facility Fees) | Grant | | | | |
| *Worse Case* | | | $0Mn | | $0Mn |
| *Best Case* | | | $12Mn | | $7Mn |
| | *Worse Case* | $342Mn | $8Mn | $400Mn | $20Mn |
| | *Best Case* | $776Mn | $28Mn | $855Mn | $33Mn |





## Multi family

- Continue lending on MHSA (Mental Health Services Act) program
  - Anticipated 30 to 50 projects in 2010/2011 fiscal year
- TCAC (Tax Credit Allocation Committee) consulting/underwriting ARRA funds for tax credit projects through 2011
  - Anticipated 90 projects in 2010/2011 fiscal year
- New Issuance Bond Program: act as conduit issuer only
  - NIBP Conduit only provides no real estate, loan or bond risks to CalHFA
  - NIBP loan approval delegated to executive director
  - Anticipated 5 to 15 projects by year end 2010





## Priorities 4 and 5

Renew and Strengthen Old Partnerships
Explore New Business Models

## Re-tooling for multiple lending platforms

- Seek extension of NIBP
- Single family
  - Use the MRB funding source on a limited basis for targeted programs
  - Change charter to become a direct lender
  - Routinely deliver loans into the GSE's community lending channels
- Multi family
  - Become a Fannie Mae approved seller/servicer





## Glossary

*ARRA*: American Recovery and Reinvestment Act
*GSE*: government-sponsored enterprise
*HHF*: Hardest Hit Funds
*HMRB*: Home Mortgage Revenue Bonds
*LTV*: loan to value
*MRB*: Mortgage Revenue Bonds
*NIBP*: New Issue Bond Program
*RCA*: revolving credit agreement
*REO*: real estate owned