California Housing Finance Agency

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

Presentation to CalHFA Board of Directors
May 12, 2010

CalHFA℠
Affordable Housing is our Business

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.

Overview of Long Range Plans

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

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.

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

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%	4.29%	4.46%	4.37%	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%	4.88%	5.02%	5.16%
Housing Bond Cost	4.02%	4.05%	4.60%	4.77%	4.94%	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	11.60%	11.20%	10.90%	10.50%	10.20%	10.00%	9.80%	9.80%
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	383	349
REO – Projected Sales (in number of loans)	315	315	315	315	315	315	315	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

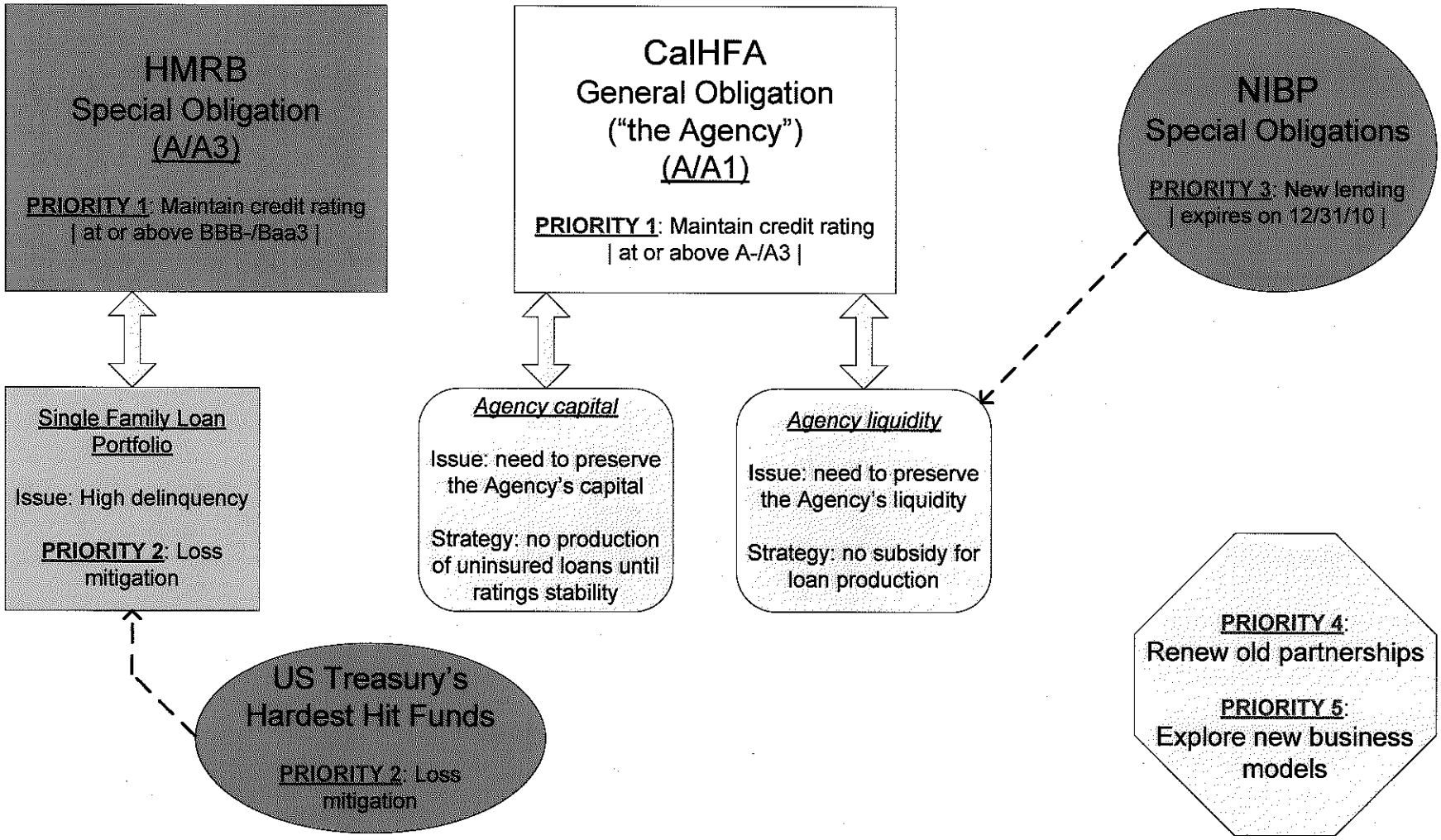
Agency liquidity projection

- 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**

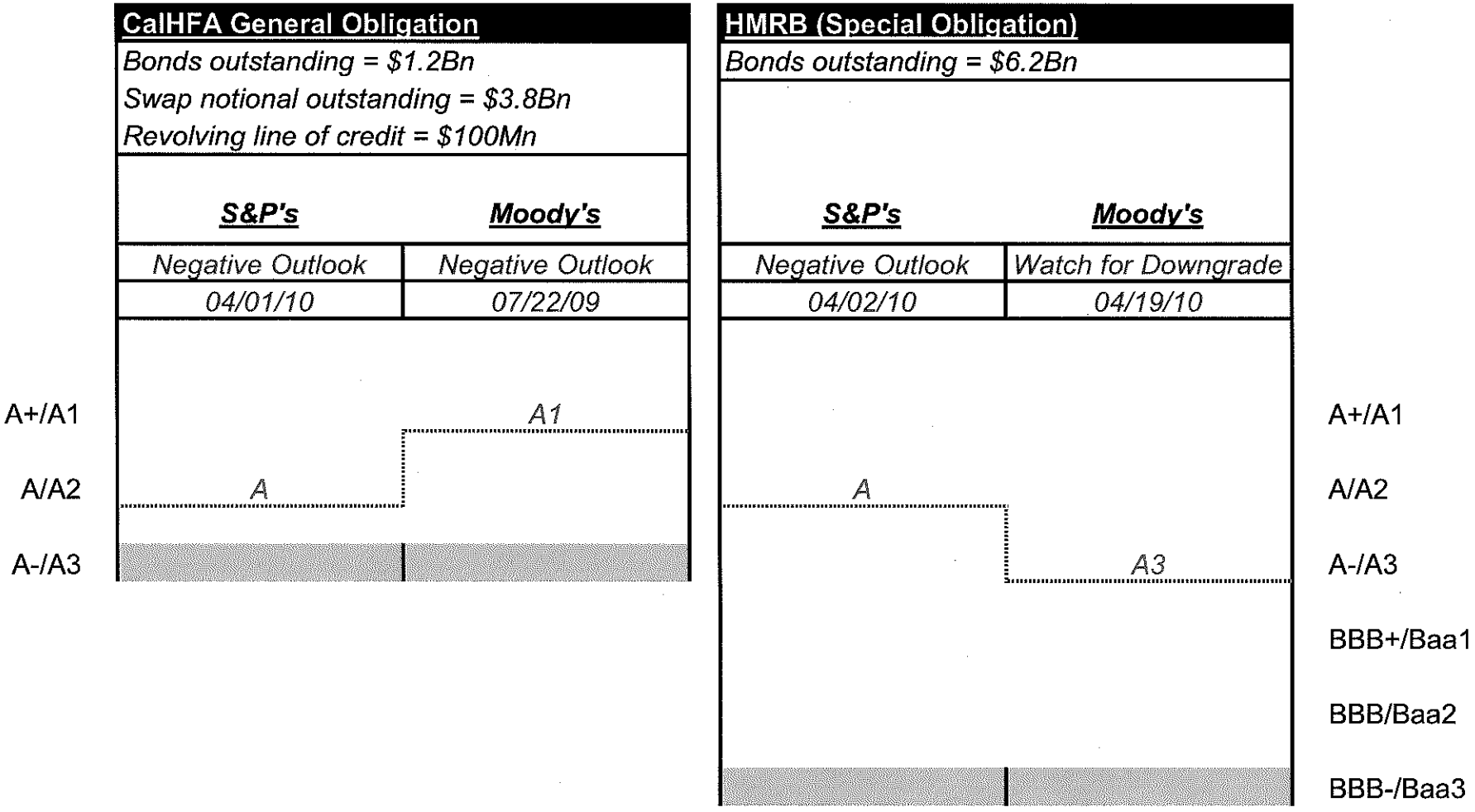
Top Priorities for the Business Plan Period: Big Picture



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

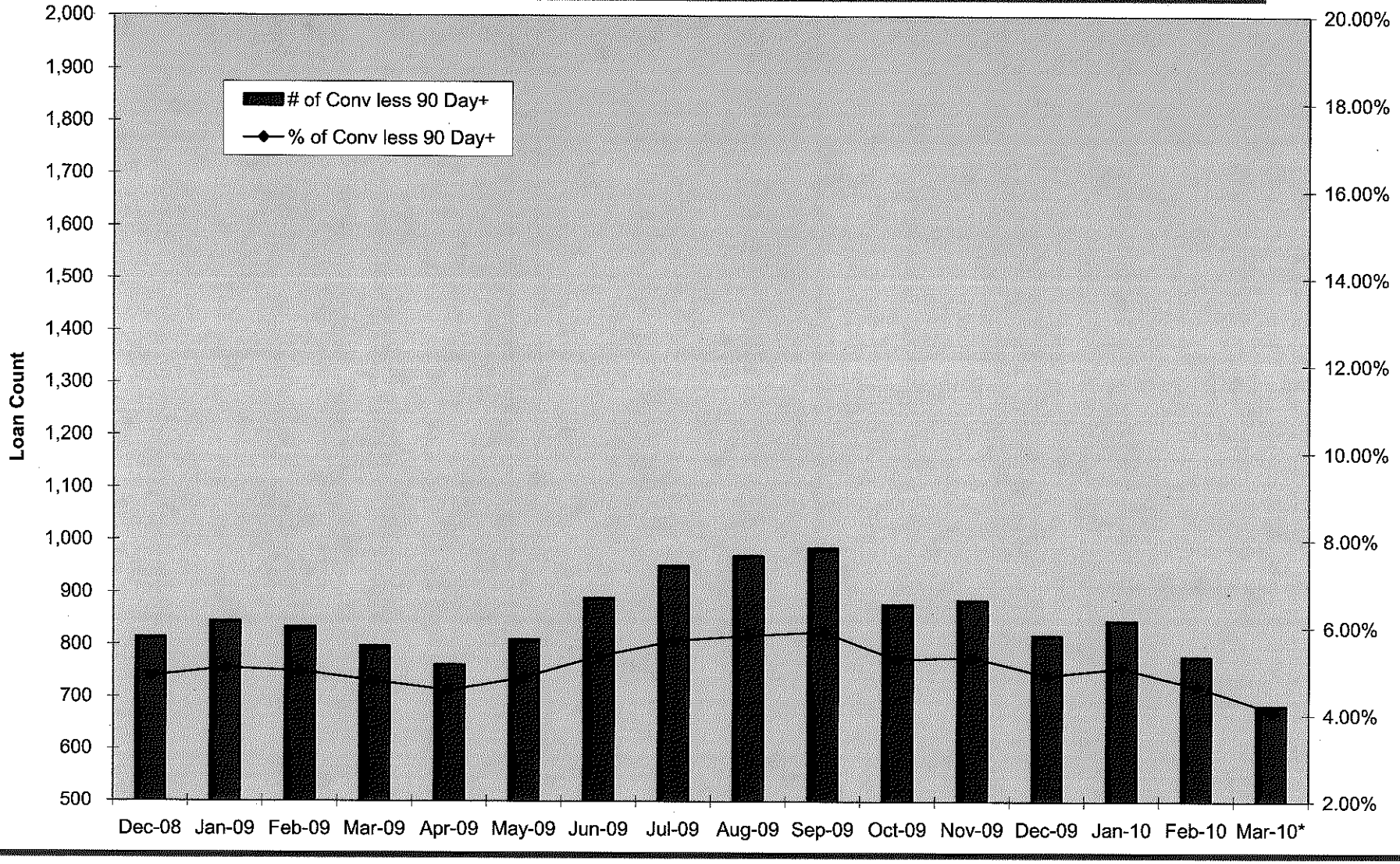
Current Delinquency Situation

	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*	

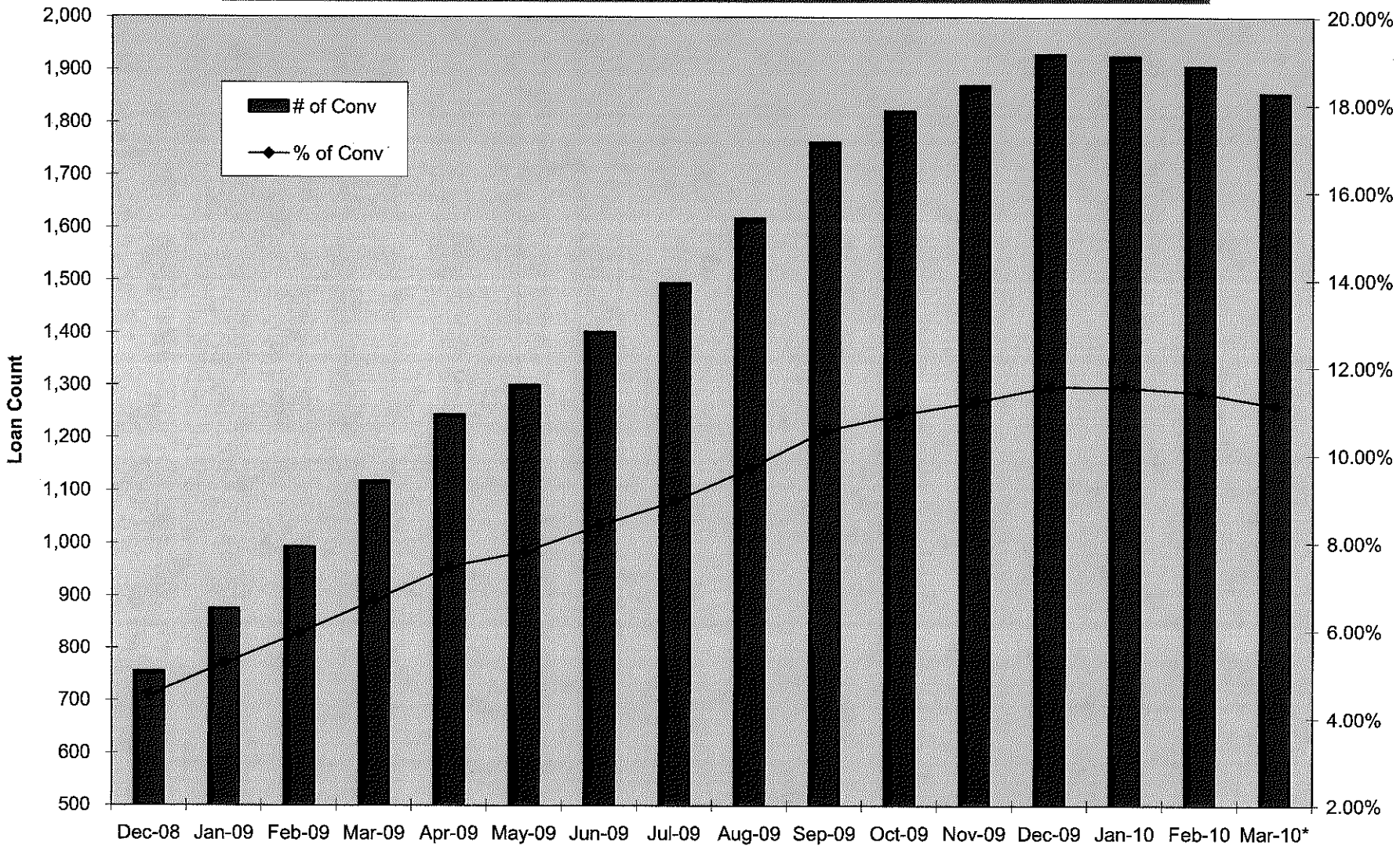
Loan Modifications

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**		**1st Mtg**	
FHA	***96.5% 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	
			2nd Mtg		**2nd Mtg**
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