CalHFA Board Meeting

Nov 17, 2010

Moody's rating action on Oct 26, 2010

- Downgraded the Agency's G-O to A2 from A1
  - Negative Outlook
- Confirmed HMRB at A3
  - Negative Outlook
- *Removed from Credit Watch for Downgrade*

Rating rationale

- *On negatives*
  - Erosion of the Agency's fund balances, profitability and liquidity as a result of single family mortgage loan delinquencies and foreclosures, risks related to the Agency's high level exposure of variable rate debt, and uncertainty about future financial growth
- *On positives*
  - CalHFA continues to have a sound balance sheet sufficient to meet its obligations
  - Two recent steps taken have been significant credit positive
    - First, in April 2010, the Agency placed a cap of $135Mn on the Agency's general funds that would be made available for "gap" mortgage insurance.
    - Second, in October 2010, at CalHFA's request the California legislature approved a loan from the State to CalHFA to refinance CalHFA's borrowings for the Bay Area Housing Plan

Rating rationale (continued)

- *On positives*
  - Management actions remain a positive factor
  - Actions by CalHFA's management have contributed positively to the rating assessment
    - The decision to cap the funds available for gap insurance relieved a source of liquidity pressure on the issuer rating
    - Has substantially enhanced its single family asset mgmt and reduced timelines for moving defaulted loans through the pipeline
    - Successful renegotiation of interest rate swap collateral provisions to move trigger to lower rating levels
    - Successful application for the large HHF award should also contribute to efforts to reduce single family losses
    - Successful in obtaining legislative authorization for refinancing from other state resources its short-term borrowing for the Bay Area Housing initiative, relieving a near-term liquidity pressure

Negative Outlook

- *What could stabilize the ratings or change the ratings - up*
  - Successful management of single family mortgage loan delinquencies and foreclosures (combined with successful implementation of HHF), so as to contain or reduce losses
  - Reduced variable rate bond exposure
  - Reduced swap portfolio and/or reduced impact of collateral posting
- *What could change the ratings - down*
  - Failure to close the anticipated refinancing of the Bay Area Housing
  - Increases in single family losses
  - A downgrade of Genworth Mortgage Insurance Company
  - Higher levels of mortgage delinquencies or foreclosures, possibly triggered by a second downturn in general economic trends
  - A significant downgrade of HMRB, impairing the ability of HMRB to reimburse the operating account for swap payments
  - Increase in swap collateral posting due to further declines in interest rates or ratings downgrades, unforeseen counterparty events, or lack of successful transition from TCLP liquidity facilities

Summary of CalHFA ratings

	CalHFA General Obligation		HMRB (Special Obligation)	
	Bonds outstanding = $1.2Bn		*Bonds outstanding = $6.0Bn*	
	TCLF = $676Mn		*TCLF = $2.6Bn*	
	Swap notional outstanding = $3.8Bn			
	BoA's line of credit = $100Mn			
	S&P's	***Moody's***	***S&P's***	***Moody's***
	Negative	*Negative*	*Negative*	*Negative*
	Oulook	*Oulook*	*Oulook*	*Oulook*
	04/01/10	*10/26/10*	*04/02/10*	*10/26/10*
A+/A1				
A/A2	*A*	*A2*	*A*	
A-/A3				*A3*
BBB+/Baa1				
BBB/Baa2				
BBB-/Baa3				