

State of California

## MEMORANDUM

To Board of Directors

Date: November 14, 2010

From: L. Steven Spears, Acting Executive Director   
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Item 7 – CalHFA Financial Management Responsibilities

The purpose of this memorandum is to brief the Board on the consideration of certain changes to the organization of the responsibilities for the overall financial management of the Agency. The current organization of these responsibilities (See Attachment 1 – Current CalHFA Organization Chart) has served CalHFA well. However, the growth of the Agency over the years and the increasingly complex worlds of bond finance and mortgage lending have had a direct impact on the Agency's financial structure and business model.

Making changes in the Agency's organization and business processes to incorporate a more complex financial world will help move CalHFA forward. As CalHFA is indeed a financial institution, organizing and operating the financial management of the Agency in a way that more clearly reflects the importance of financial management in carrying out the mission of the agency makes sense.

### Chief Financial Officer

At present, the Agency organizational chart has no position identified as Chief Financial Officer (CFO). No individual is assigned the overall responsibility of monitoring and analyzing the financial performance of CalHFA and the responsibility of managing the financial risk of the Agency. The statute creating the position of "Director of Finance," however, describes this position as having "responsibility for the financial operations of the agency." Despite this broader language in statute, prior executive directors have chosen to limit the responsibilities of Finance Director to the issuance of bonds, the management of the bond portfolio and the investment of Agency funds.

Historically, the Agency has had a rather flat senior executive organization with all Agency operations reporting up through a Chief Deputy Director position (which is not described in statute) to the Executive Director. This Chief Deputy Director position could be viewed as a combined Chief Financial Officer and Chief Operating Officer. It seems more appropriate at this point to utilize the full statutory definition of the Director of Finance and consolidate the financial management functions under a single senior executive. With the consolidation of these functions, the CFO will have the scope of responsibility for analyzing the overall financial performance of the Agency, presenting that information in an understandable way, making recommendations for financial strategies and executing those strategies approved by the Board of Directors and/or the Executive Director. (See Attachment 2 – CalHFA Financial Management Responsibilities)

The financial management of the Agency requires the careful planning and coordination of complex financial management strategies involving not only the issuance of bonds and the management of the bond portfolio, but also the management of the Agency's income earning assets and operations. These strategies must be managed within the confines of federal and state law and the complicated terms of bond indentures. Obviously, it will take the combined efforts of all of the senior managers to plan and execute these strategies. A CFO position will consolidate the responsibility to supply the Board and the rest of the senior management team with the financial tools they need keep the Agency moving forward with its mission.

### **Other Business Functions Should be Reviewed**

#### **Contract Administration:**

The Agency relies on the expertise of a number of outside consultants in a variety of areas from bankruptcy attorneys in Loan Servicing to specialized IT consultants. Generally, each Division is responsible for seeing a contract through the approval process, getting the proper legal review and management approvals. But, improvements to the contracting process could be made. In addition, once contracts are approved there is a variety of processes in place for monitoring the performance of the contract.

First, I believe it is time for a review of the Agency's contract approval process. It should be a more centralized process and should be streamlined. Responsibilities for each step in the process should be clarified. Second, once Agency contracts have been put in place, performance and deliverables should be closely monitored. In many cases, Agency contracts involve a number of different divisions, making overall contract administration difficult.

The Agency should move forward with a review of its contract approval process and should consolidate the approval and monitoring of contracts into a newly formed single Contract Administration function.

#### **Insurance Management:**

Although CalHFA does not have a dedicated position for insurance risk management, several CalHFA divisions do utilize insurance services. For example, Multifamily Asset Management manages an earthquake policy for properties with CalHFA multifamily loans and insurance is also necessary for the many single family REO properties that are now owned by the Agency. However, because the need for insurance has arisen at different times and in different divisions, management of the insurance risk of the Agency is not coordinated in any way.

I believe it is appropriate at this time for the Agency to engage in an overall review of its need for insurance coverage in the various divisions to determine whether a more coordinated insurance strategy would yield cost savings to the Agency. The insurance management function would fall somewhere under the management responsibilities of the CFO.

### Business Processes:

Over the past three or four years the Agency has managed a number of strategic projects that are bringing on line new business systems. Included is a new financial information system that will provide better and more timely information to the Board of Directors, the Executive Director and the entire senior management team. The Agency's financial accounting system has been moved to a more reliable IT platform and the next phase will involve transforming the Agency's outdated accounting system into a true information system that is capable of providing timely and helpful information about the financial performance the Agency.

A number of other operating systems have either already been completed or will be coming on line in the near future. A few examples of these systems include: Homeownership Division's new loan reservation system that will be completed next Spring; Multifamily Division's recently completed loan processing system; and Financing Division's recently completed bond portfolio management system.

Two things need to happen over the next 18 months to two years. First, before we proceed with the design of a new financial information system, we must conduct a review of all of the Agency's business processes to determine if these processes can be improved, streamlined, consolidated, etc. Once the processes (and appropriate documents) are settled, we can proceed with the design of an information system that can provide the senior managers and the Board with the best information for the management of the Agency. Second, all of the information from these various new systems must be tied into an overall management information system that will provide overall information about lending operations, mission objectives, and financial performance.

Attachment 2

California Housing Finance Agency  
 Financial Management Responsibilities  
 November 2010

