RESOLUTION 11-07

TWO-YEAR BUSINESS PLAN

FISCAL YEARS 2011/2012 AND 2012/13

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 10-06 adopted May 12, 2010, which committed the Agency to a Business Plan for fiscal years 2010/11 and 2011/12;

WHEREAS, the current global credit crisis and the continuing uncertainty in the 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 years 2011/12 and 2012/13, 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 and mortgage financing well into the future;

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

1. With the exception of the Mortgage Credit Certificate, Genworth Mortgage Insurance with 97% loan to value and Multifamily Division FHA Risk Share programs the updated 2011/12 and 2012/13 Business Plan, as presented 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 various economic, fiscal and legal assumptions, for the Agency to respond to changing circumstances, and subject to the provisions of Resolution 11-06 the Executive Director shall have the authority to adjust the Agency's day-to-day activities to reflect actual economic, fiscal and legal circumstances 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 11-07 adopted at a duly constituted meeting of the Board of the Agency held on May 19, 2011, in Sacramento, California.

ATTEST: _____
Secretary

Attachment

State of California

MEMORANDUM

To: Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: May 19, 2011

From: L. Steven Spears, Chief Deputy Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Agenda Item 7 – Resolution 11-07 -- CalHFA Two-Year Business Plan

For your consideration and approval, I offer the 19th annual CalHFA Business Plan for Fiscal Years 2011-12 and 2012-13. The attached resolution and presentation are included for your review. The presentation is in Powerpoint format that will be condensed into a summarized Powerpoint presentation at the Board meeting.

The Two Year Business Plan (Plan) provides the Board of Directors and the senior management team of CalHFA with priorities, operational objectives and strategies to implement the Agency's lending activities and operations. In addition, the Plan provides the Board with an update on several important initiatives and loan products that fundamentally change the Agency's business environment. These strategies and initiatives will allow the Agency to meet head-on the continuing challenges presented by the current housing and financial markets.

The Plan continues to emphasize the five priorities discussed at the Board's March 2010 meeting – 1) Maintain credit ratings; 2) Mitigate loan losses; 3) Renew lending; 4) Reestablish business partnerships and 5) Explore new business opportunities. During the next fiscal year, the State HFA Initiative New Issue Bond Purchase (NIBP) program will expire. Therefore, you will see in this business plan several lending program proposals for Homeownership and for Multifamily that are designed to enable the Agency to continue lending after the expiration of the NIBP. Also, Multifamily lending activities will continue to include the Mental Health Services Act Housing Program, however, staff estimates funding for MHSA will be exhausted by early in calendar year 2013. The Asset Management Division will continue to manage a growing inventory of multifamily properties which includes an increasing number of properties that are reaching the end of their loan term and are in need of rehab. In addition, if HUD approves the Agency's response to the Performance Based Contract Administration (PBCA) RFP, we will see a dramatic increase in the Asset Management Division's workload.

The Agency will continue with the operation of the $2 billion federally funded Keep Your Home Program and also hire additional permanent staff to effectively manage the CalHFA single family loan portfolio and manage the inventory of CalHFA "real estate owned" (REO) properties.

During this past year, Agency staff have worked very hard to manage our challenges and return to lending. Please join me in recognizing the fantastic job that the staff of Homeownership, Mortgage Insurance, Multifamily, Financing, Marketing, Legal, Asset Management, Administration, Information Technology, Fiscal Services, Special Lending and Loan Servicing has accomplished this past year.

Your approval of Resolution 11-07, adopting the 19th CalHFA Business Plan is requested.

Update to Business Plan for FY 2011-12 and FY 2012-13

Presentation to CalHFA Board of Directors

May 19, 2011

CalHFA

Business Plan Outline

- Basic Economic Assumptions
  - Economic environment, interest rates, employment, and real estate markets.
- CalHFA Assumptions
  - Financial strength, credit ratings, liquidity, internal funding for programs, and housing bond market;
  - Homeownership and Multifamily New Lending;
  - SF and MF Portfolio Management
- Business Plan Priorities
  - Previously adopted by the Board
- Divisional Business Plans
  - Including projected business volume

Assumptions

- California Economy
  - Flat through 2012, then very modest recovery
- Unemployment
  - Improving slightly but not until 4Q 2011 or 1Q 2012
- Interest rates
  - General level remaining low through 2013
  - Mortgage rates generally flat
- Home Sales
  - Demand increasing slightly in late 2011 and into 2012
- Home Prices
  - Another 5-10% decline in 2011

CalHFA

Economic Forecast

	2011/12				2012/13			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Interest Rate Forecast								
10 year maturity – US Gov't bond yields+	3.73%	3.91%	4.05%	4.15%	4.24%	4.37%	4.50%	4.61%
Fed Funds rate+	0.28%	0.37%	0.61%	0.95%	1.39%	1.75%	2.00%	2.25%
Domestic Municipal Bonds*	5.35%	5.71%	5.70%	5.69%	5.68%	5.67%	5.67%	5.67%
Housing Bond Cost**	3.87%	3.93%	5.79%	5.89%	5.98%	6.11%	6.24%	6.35%
Conventional Mortgage Rate*	5.22%	5.39%	5.52%	5.64%	5.77%	5.89%	5.80%	5.71%
California Forecast								
California Unemployment*	11.5%	11.2%	10.9%	10.7%	10.4%	10.0%	9.7%	9.4%
Residential Building Permits (thousands)*	14.5	14.83	17.68	23.13	32.83	41.76	42.38	41.73

+ From Bloomberg – CBT – Chicago Board of Trade
* From the UCLA Anderson Forecast, March 2010
** These rates were projected internally using recently issued national HFA fixed-rate bonds. The rates have been compared to U.S. Treasury rates and are projected forward to remain consistent with 10-year Treasury projections.

Assumptions – Cont'd

- Agency Fund Balances
  - Adequate to fund capital reserve requirements
  - Sufficient to meet expected real estate losses, credit adjustments and general obligations of the Agency
  - HMRB equity sufficient to absorb insured and uninsured loan losses
    - Relies on Genworth's ability to continue paying claims
- Agency liquidity
  - Tied to Agency Bond and G-O credit ratings
    - G-O at or above A3/A-
    - HMRB at or above Baa3/BBB-
  - Sufficient to fund Agency operations and other financial obligations
  - Sufficient to meet swap collateral postings thru A3/A- rating levels
  - MI Fund becomes insolvent in 3rd quarter 2011
  - Reserve account to pay gap claims exhausted by September / October 2011

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Assumptions – Cont'd

- HAT funds unavailable for downpayment assistance, Special Lending (RDLP/HELP loans), Multifamily or Asset Management programs
- State GO Bond funds available for Single family DPA
- Tax-exempt municipal bond market
  - Suffering from Supply / Demand Dynamic
    - Majority of municipal investor demand is in shorter maturities
    - Preponderance of municipal issuer supply is for longer term bonds
  - Cost of capital may not allow competitive bond-funded loan rates
  - CDLAC continues to allocate volume cap to housing programs based on historical allocations
- Use of Variable Rate Bonds limited to the following:
  - Refunding existing variable rate bonds
  - New MF conduit bonds

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Agency Projected Liquidity 2011 – 2015

	1-Mar-11 through 31-Dec-11	1-Jan-12 through 31-Dec-12	1-Jan-13 through 31-Dec-13	1-Jan-14 through 31-Dec-14	1-Jan-15 through 31-Dec-15
Beginning Balance	238,292,629	222,056,586	229,199,573	252,851,809	267,953,027
Sources Of Liquidity					
P&I Payments from Unencumbered Loan Portfolio	28,843,099	39,654,259	42,751,055	36,333,911	38,319,435
Admin Fees, Loan Servicing and Investment Income	9,643,693	15,297,863	13,949,181	12,700,117	11,525,623
Reimbursement of Swap Net Payments from HMRB	41,005,554	64,518,269	41,076,367	23,924,617	14,349,464
Excess Revenues from Multifamily Loan Programs	5,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total Estimated Liquidity	84,492,346	129,470,391	107,776,603	82,958,645	74,194,523
Uses of Liquidity					
Operating Expenses	34,327,247	40,309,134	38,048,000	38,932,810	40,879,470
Fund Existing Loan Commitments	1,495,588	-	-	-	-
Financing and Debt Service Related	13,900,000	5,000,000	5,000,000	5,000,000	5,000,000
Advance Swap net payments for HMRB	41,005,554	64,518,269	41,076,367	23,924,617	14,349,464
Repayment of PMIA Loan	10,000,000	12,500,000	-	-	-
Total Uses of Liquidity	100,728,389	122,327,403	84,124,367	67,857,427	60,228,934
Ending Balance	222,056,586	229,199,573	252,851,809	267,953,027	281,918,616

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Lending and Portfolio Assumptions

- Homeownership Lending
  - MBS business model for bond funded programs
  - New Issue Bond Program
    - U.S. Treasury purchase of Agency bonds ends 12/31/11
    - Lending rate achieved with NIBP may not be competitive
    - Changes to NIBP being discussed with Treasury
  - G.O. bond funds for down payment assistance
  - Develop business model concepts that don't rely on bonds
- Multifamily Lending
  - New Issue Bond Program
    - Plan to use remaining NIBP allocation in 2011
  - Conduit financing being considered
  - Very limited capital to support uninsured lending
- Any new lending products or initiatives
  - Discussed and approved before implementation by staff

CalHFA

Lending and Portfolio Assumptions

- Keep Your Home California -- $2 billion
  - Positive effect on CalHFA portfolio
- Loan servicing
  - Expand call center capacity
  - Acquire loans from underperforming servicers
  - Foreclosure prevention through loan modifications
- Increase REO sales rate
- Working with Genworth on effective claims management
  - Continue to foster the cooperative and collaborative relationship between Genworth and CalHFA
  - Monitor Genworth financial strength

Business Plan Priorities

CalHFA

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 • Foster new partnership internal and external • Generate efficiencies and collaborative relationships in the delivery of state affordable housing services			
					Thrive • Lending in substantial volume • Improving profitability structure • Recharging reserves • Funding Agency programs

CalHFA

Five Major Priorities for the Business Plan Period

- Maintaining Credit Ratings
  - S&P downgraded G.O. one step to A-
- Loss Mitigation
  - Multifaceted: loan modifications, short sales, foreclosures, REO management
- Renew Lending Activities
  - Single family and Multifamily lending using the remaining NIBP funds and introducing new loan products that include non-bond funded executions.
- Renew and Strengthen Old Partnerships
  - Local governments and non-profits
  - Genworth Mortgage Insurance
- Explore New Business Opportunities
  - Necessary for reviving and thriving
  - May need new business partners and/or new roles

Divisional Business Activity Plans
Homeownership

Single Family Scenarios For Fiscal Year 2011-12

- **Case A (Non-Bond Funded)**
  - CalHFA single-family mortgage bond spread less than 75 bps
  - CalHFA single-family mortgage rates at par with market
  - CA economy continues to lag
  - Limited warehouse line of $100 million

- **Case B (Mix of Bond and non-Bond)**
  - CalHFA single-family mortgage bond spread at 100 bps
  - CalHFA single-family mortgage rates .25% below market
  - CA economy recovering
  - Warehouse line of credit of $150 million

- **Case C (Bond funding)**
  - CalHFA single-family bond spread at full spread, 112.5 bps
  - CalHFA single-family mortgage rates .50% below market
  - CA economy recovered
  - Warehouse line of credit of $200 million

CalHFA

Conventional Loan Program

- Fixed interest rate, 30-year term, fully amortized
- Genworth Mortgage Insurance will insure
  - Maximum Loan-to-Value (LTV) of 97% (exclusive to CalHFA)
  - Maximum Total Combined-Loan-to-Value of 103%
  - Minimum FICO 720
  - 3% borrower's own funds for LTV > 95%
  - 2 months' reserves required
  - Includes job loss protection
  - Not available to brokers
- Can be used either with bond or non-bond execution

MCC Loan Program

- Mortgage Credit Certificates
  - MCC gives borrower 20% tax credit on mortgage interest paid
  - Not exclusive to CalHFA
  - Must be used with non-bond-funded first loan
- $500 processing fee waived when used with CalHFA FHA loan product
  - Lower loan costs brings more loans to CalHFA
- Loans are sold in the secondary market to investors
  - i.e., this is a non-bond execution

FHA with Exclusive CalHFA Down Payment Assistance

- Fixed interest rate, 30-year fully amortized term
- Uses exclusive CalHFA down payment assistance loan
  - Funded through half-point increase in first mortgage rate
  - Silent second for 3% of purchase price
  - Only available through CalHFA
  - When used with CHDAP, requires $1,000 or 1% from borrowers' funds
  - Minimum FICO 620
- Loans are sold in the secondary market to investors
  - i.e., this is a non-bond execution.

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Single Family Volume Projections

	Case A	Case B	Case C
CalHFA FHA	$ 76.5	$590	$760
MCC	$178.5		
FHA plus Down Payment	$150		
Conventional	$102	$177	$304
TOTALS	**$507**	**$767**	**$1,016**

All amounts in $Millions
Projections for Fiscal Year 2011/12

Bonds: Loan Volume is full spread earnings. More volume available if spread reduced to subsidize lower rate for Case A

CalHFA

Down Payment Assistance Projections

	Case A	Case B	Case C
CHDAP	$27	$28	$36
SFF (School Facility Fees)	$10	$10	$10
TOTALS	**$37**	**$38**	**$46**

All amounts in $Millions
Projections for Fiscal Year 2011/12

Divisional Business Activity Plans

Portfolio Management
and
Mortgage Insurance

CalHFA

Single Family Portfolio Management

- Loss Mitigation
  - Approve 750 Loan Modifications During Fiscal Years 2011 & 2012
    - Since July 2009 – 924 Approved
  - Increase Sustainability of Modifications from 60% to 75%
  - Incorporate U.S. Treasury Hardest Hit Funds into CalHFA Loan Modification Program (CMP) with Keep Your Home California Programs
  - Follow-up on and Train all CalHFA Loan Servicers to use KYHC/CMP

- Loan Servicing Administration
  - Review 500 and Approve 360 Short sales
  - Ensure Loan Servicer Compliance to CalHFA Servicing Requirements
  - Conduct on-site Audits of CalHFA Loan Servicers
  - Collect $400, 000 in Fees from Outside Servicers
  - Acquire loans from non-CalHFA servicers to improve loan performance

REO Management

- Sell 140 REO Properties Per Month
- Reduce REO Holding Times:
  - Reduce eviction times (TAP)
  - Reduce time From foreclose to For Sale to 45 days
  - Reduce time from listing to closing from 105 to 80 days
  - Optimize pricing strategy (i.e. highest net proceeds within 12 Months)

CalHFA

Mortgage Insurance Services

- Maintain Premium Revenue Stream From Insurance In force
  - $2.2 Billion Insurance in force
  - Gross Premiums $11.6 Million for Fiscal Years 2011 & 2012
- Manage Payment of CaHLIF share of Claims
- Promote Claims Loss Mitigation Strategies
- Manage and Grow Business Relationship with Genworth
  - Premium Collection
  - Claim Payment Administration
  - Loss Reserves
  - Job Loss Insurance
  - Reinsurance Contract
- Evaluate and Recommend Primary and Gap Loss Reserves

CalHFA

Operations & Quality Assurance

- **Operations**
  - Maintain the CalHFA Loan Modification System
  - Maintain Payment of CaHLIF share of Claims
  - Coordinate Systems with Genworth Mortgage Insurance

- **Quality Assurance**
  - Continue Meeting GSE Standards for QA
    - Conduct Credit Underwriting Audits
    - Conduct Program Compliance Audits
    - Conduct Investor Requirements Audits
  - Recommend GAP Claim Payments & GAP Loss Reserves
  - Review Indenture Loan Losses and Indenture Loan Loss Reserves

Divisional Business Activity Plans
Multifamily

CalHFA

Mental Health Services Act

- MHSA funds used for development, acquisition, construction and/or rehabilitation of permanent supportive housing for individuals with mental illness and their families, including homeless individuals and their families
- To date CalHFA has closed 55 deals for $147 million and 2,355 units
- Another 50 + deals are in some stage of either application or committed process
- Remaining funds of $253 million includes deals in process and dollars for future deals that will be used over the next 24 months to fund 2,000-3,000 units
- This will wrap up MHSA unless new funds are approved
  - Funds exhausted – early 2013

CalHFA

New Issue Bond Program

- Created by U.S. Department of Treasury with the assistance of FHFA, Fannie Mae and Freddie Mac
  - Expires 12/31/2011
- CalHFA multifamily has committed approximately $287 million of the $380 million in bonds. The remaining $93 million may be used for refunding/credit enhancement of existing CalHFA bonds in 2011
- Multifamily will close $105 million of the committed NIBP dollars which includes $11 million in private placement
- If restructure of CalHFA bonds does not occur, the $93 million will be used for new projects in 2011
- This will finish NIBP projects unless new funds approved, for a total of 1,000-2,000 units
- Discussions continue with U.S. Treasury regarding reallocation of NIBP from single family to multifamily lending.

CalHFA

New Multifamily Lending: Conduit Issuance

- CalHFA can act as an issuer of tax exempt bonds on multifamily transactions to be sold to investors or privately placed with other lenders that can provide a credit enhancement on those bonds
- Conduit Issuer Only– Loans would be Credit Enhanced by GSEs, insured by FHA or financed with another lender
- CalHFA acts only as conduit issuer and receives up front and on going fees. Estimated volume $100 to $400 million depends on demand and financing for tax-exempt bonds
- Need to discuss role of CA Treasurer's office as Agent for Sale; these are done as individual bond deals
- Anticipated roll-out July 1st of the new fiscal year

CalHFA

Other Multifamily Business

- **Freddie Mac Seller Servicer Agreement**
  - Potential agreement with Freddie Mac to obtain seller servicer agreement.
  - CalHFA could obtain Freddie Mac's AAA credit enhancement with no risk
- **FHA Risk Share Agreement**
  - Would allow CalHFA to provide permanent loans with shared risk to FHA
  - Agency must have sufficient capital to offset rating agencies' capital requirements
- **Fannie Mae Third Party Correspondent with an Already Approved DUS Lender**
  - Partner with an already approved Delegated Underwriter Servicer (DUS) on permanent loans to use AAA credit enhancement

CalHFA

Multifamily Loan Financing Executions

Functions	MFIII	CONDUIT	FHLB	FHA RISK SHARE PRESERVATION	GSE-SUPPORTED PERM LOAN ACQUISITION
Underwriting	x		x	x	x
Loan Servicing	x		x	x	GSE
Asset Mgt	x		x	x	GSE
Issuer of Bonds	x	x	x	x	x
Guaranty/ Credit Enhancement	CalHFA Balance Sheet	Anybody but CalHFA	FHLB (25-50bps charge by FHLB)	CalHFA/FHA Pilot Prepayment (exp. 2018)	GSE
Revenue to CalHFA	Spread Annuity (max 150bps)	NIBP: 25 bps; No NIBP: 12.5 bps; Ongoing fee under both NIBP and Post-NIBP	One Time Fee (25 bps) Ongoing Fee (25 bps)	Continued Spread Annuity (max 150 bps)	Fee - One-time Conduit Fee - Orig.
Indenture	Parity	Stand Alone	Stand Alone	Parity	Parity

Divisional Business Activity Plans
Multifamily Asset Management

CalHFA

Asset Management Business Activity

- More than 500 multi-family loans
  - $2.5M per year Earned Surplus fees collected
  - $1.3M per year Administration Fee - Section 8
  - No foreclosures expected
- Administer
  - $67M/year Section 8 Housing Assistant Payment Subsidy
  - $6.3M MHSA Capital Operating Subsidy
  - $1.8M RHCP Annuity Lending
  - PBCA decision July 1, 2011

Divisional Business Activity Plans
Strategic Projects

CalHFA

Strategic Initiatives

- New Homeownership Loan Origination System
  - Scheduled to launch in 3rd Quarter 2011
- Enterprise Content Management
  - Document imaging will improve customer service, save storage costs and create other efficiencies;
  - Agencywide document management and retention policy will improve overall Agency productivity, save costs and create opportunities for collaboration.
- Business Continuity/Emergency Response
  - Update for moves to 500 Capitol Mall and West Sacramento
  - Needed for PBCA and GSE servicing
- Fiscal Services Phase II
  - Will generate more timely and more useful information for management
- Coordination and collaboration with other affordable housing funding functions in state and local government.