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

Presentation to CalHFA Board of Directors
May 19, 2011

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

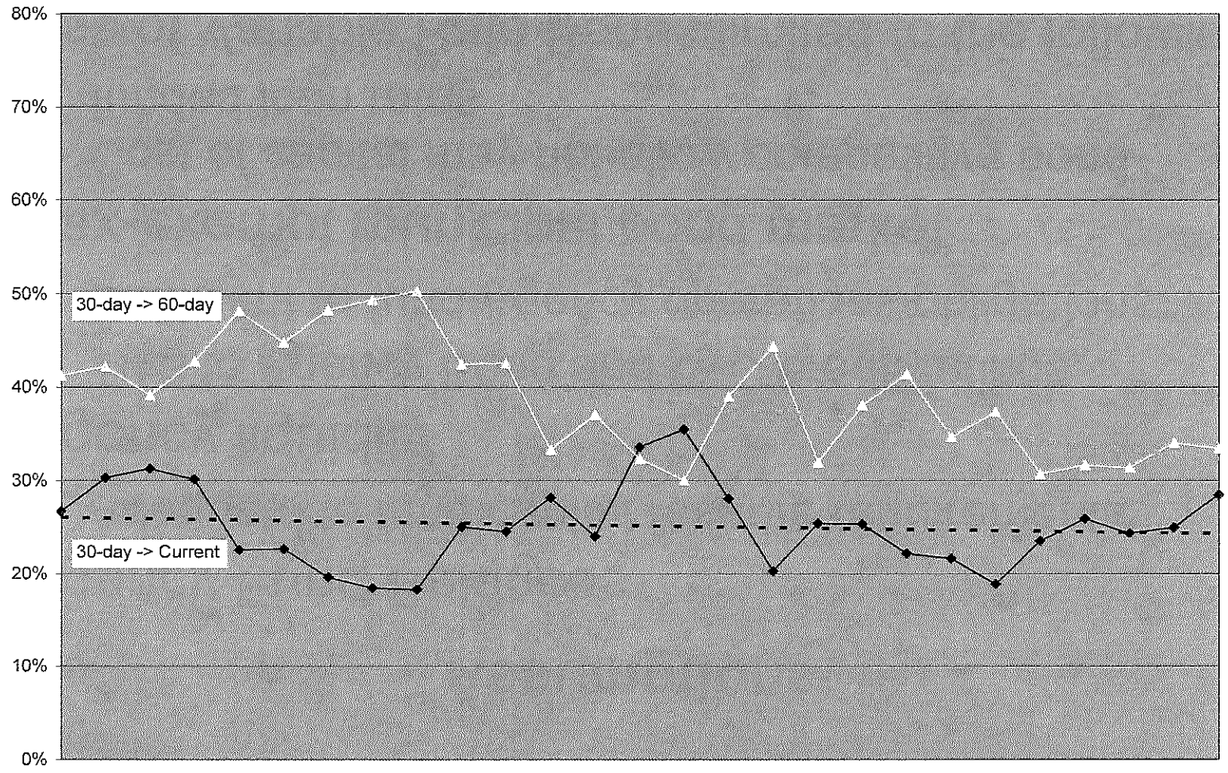
+ From Bloomberg – CBT – Chicago Board of Trade
* From the UCLA Anderson Forecast, March 2010
** These rates were projected internally using recently issued national HFA fixed-rate bonds. The rates have been compared to U.S. Treasury rates and are projected forward to remain consistent with 10-year Treasury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

CalHFA

Assumptions

- Agency Fund Balances
  - Adequate to fund capital reserve requirements
- Agency liquidity
  - Tied to Agency Bond and G-O credit ratings;
  - Sufficient to fund Agency operations/obligations;
- Tax-exempt municipal bond market
  - Cost of capital may not allow competitive bond-funded loan rates
- Use of Variable Rate Bonds limited to the following:
  - Refunding existing variable rate bonds
  - New MF conduit bonds

Monthly transition rates demonstrate stabilizing to positive trends (Dec 2008 to Mar 2011)



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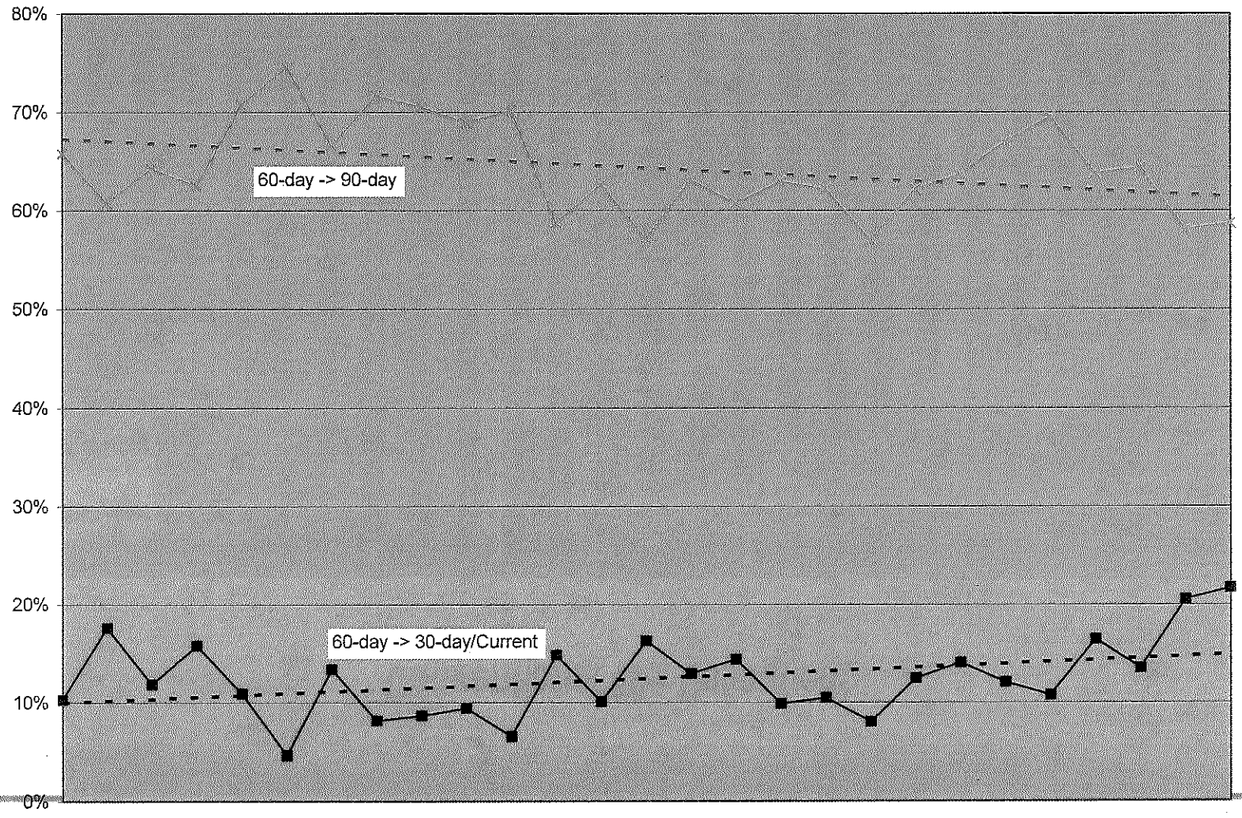
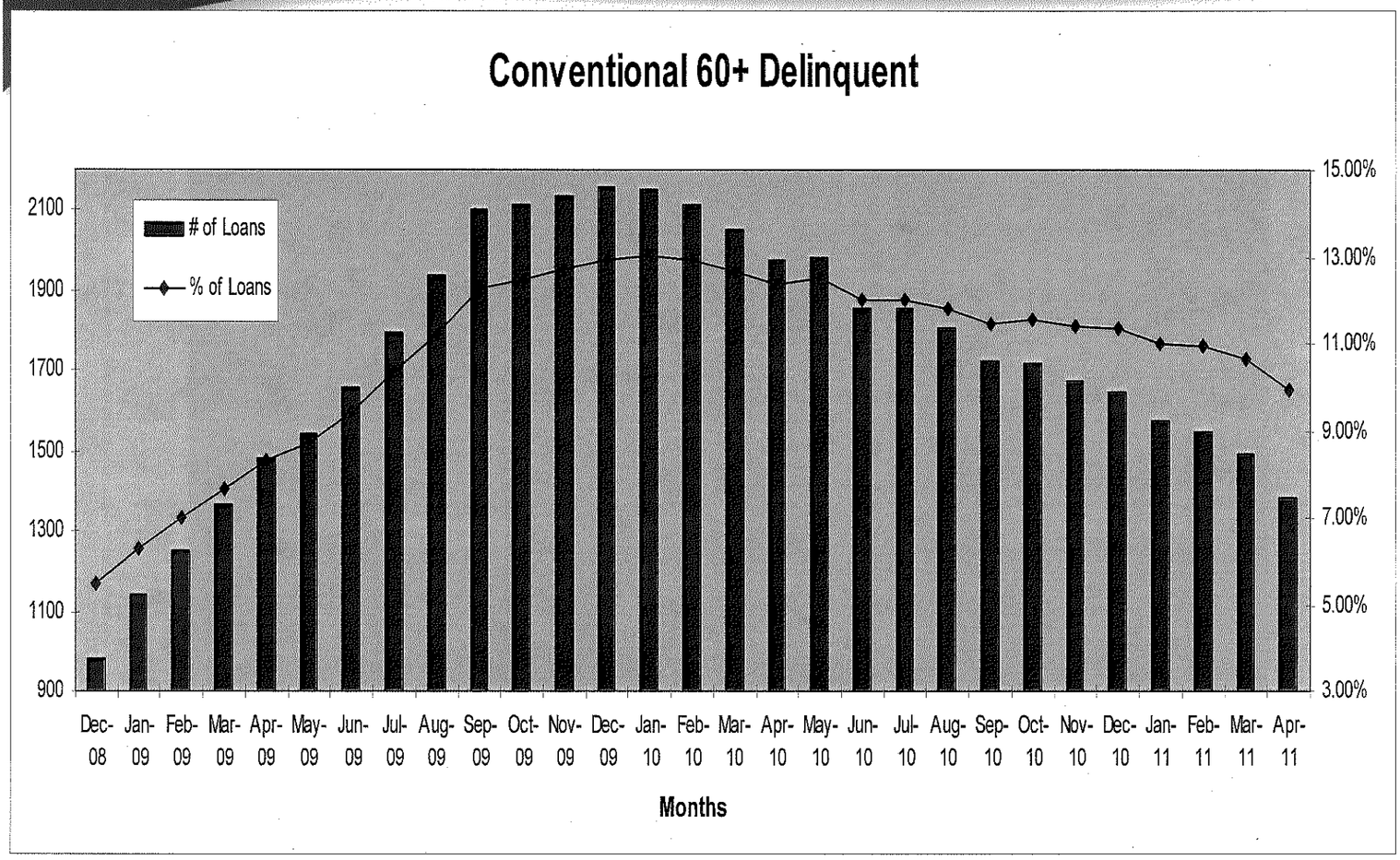
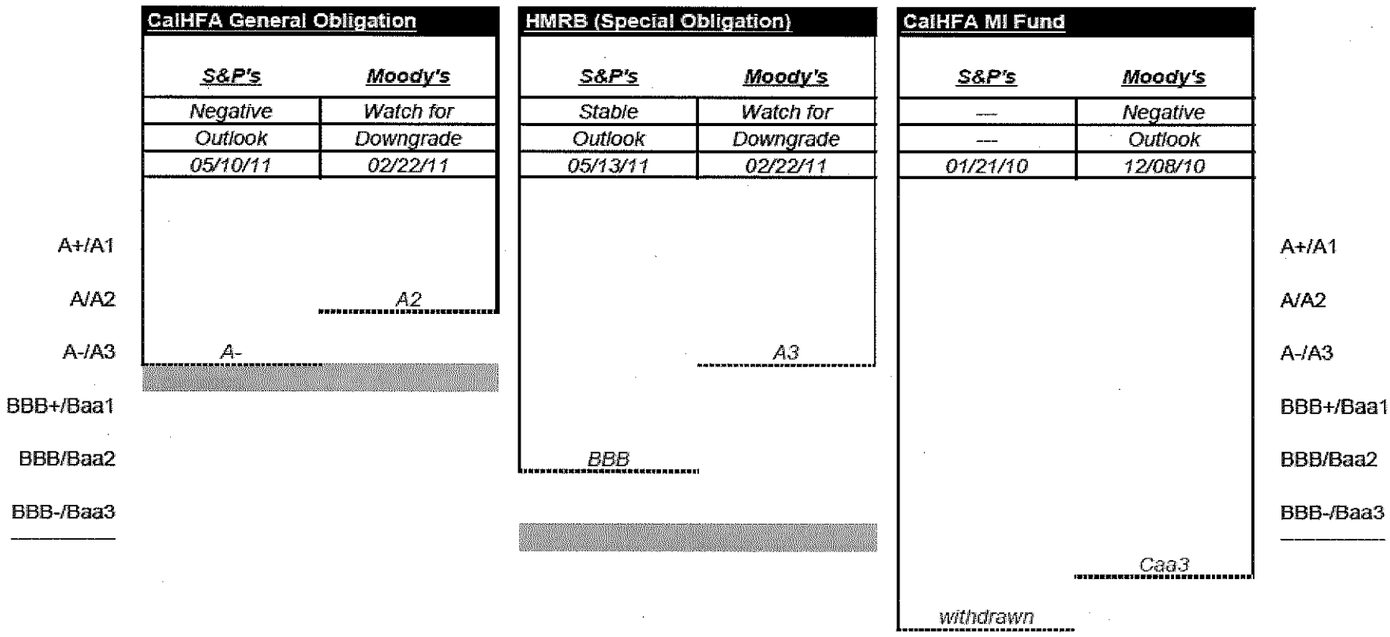



Conventional 60+ Delinquent
# of Loans
% of Loans
2100
1900
1700
1500
1300
1100
900
15.00%
13.00%
11.00%
9.00%
7.00%
5.00%
3.00%
Dec-08
Jan-09
Feb-09
Mar-09
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
Mar-11
Apr-11
Months

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

Existing CalHFA credit ratings



Business Plan Priorities

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

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

CalHFA

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.

Focus Group Findings

- FHA/Silent Second program was preferred
- Positive About Conventional Loan/97% Mortgage Insurance Program
  - 720 credit score was considered too high
- FHA/MCC received positive comments
- CHDAP is viewed overwhelmingly positive

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

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

Single Family Portfolio Management

Single Family Portfolio Management

- Loss Mitigation
  - Approve 750 Loan Modifications in Next Two Fiscal Years
  - Increase Sustainability of Modifications from 60% to 75%
- Loan Servicing Administration
  - Review 500 and Approve 360 Short sales
  - Ensure Loan Servicer Compliance to CalHFA Servicing Requirements
  - Acquire loans from non-CalHFA servicers to improve loan performance
- Reduce REO Holding Times:
  - 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)

Divisional Business Activity Plans
Multifamily

Multifamily Lending

- MHSA funds exhausted – early 2013
  - Closed 55 deals for $147 million and 2,355 units
  - Another 50 + deals in process
  - Remaining funds $253 million
- New Issue Bond Program – expires 12/31/11
  - Closed or Committed $287 million in conduit lending
  - Remaining $93 million - restructuring CalHFA bonds
- Must look to new sources of capital and new loan strategies
  - Several ideas being developed.

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

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

Strategic Initiatives

- New Homeownership Loan Origination System
  - Scheduled to launch in 3rd Quarter 2011
- Enterprise Content Management
  - 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.
  - Objective: Improve delivery of State affordable housing financing