

## MEMORANDUM

To: Board of Directors  
CALIFORNIA HOUSING FINANCE AGENCY

Date: July 12, 2011

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

Subject: Agenda Item 4 – Resolution 11-09 – Amendment to Homeownership Business Plan

**Background:** At the May 2011 meeting, the Board discussed a number of business proposals presented by staff and adopted an updated Two Year Business Plan for Fiscal Years 2011/12 and 2012/13. The Board requested additional information on three proposals: 1) a Multifamily Division proposal to further develop a risk-share program with FHA; 2) a Homeownership Division proposal to offer a conventional loan product insured by Genworth Mortgage Insurance with a 97% loan to value; and 3) a Homeownership Division proposal for a Mortgage Credit Certificate (MCC) program. The Multifamily Division has not completed its discussions with various parties on the risk share proposal and is not yet ready to bring that item back to the Board. The Homeownership Division, however, is ready to provide more information on the MCC program and the 97% conventional loan program.

**97% Conventional Loan Program (Cal97 Program):** At the May meeting, staff presented a proposal for a conventional loan product that would be offered to borrowers in addition to the current FHA program. The Board expressed a desire to discuss this product further at the July meeting.

To recap the terms of this program: The borrower pays a fixed interest rate for 30 years on a fully amortizing loan. Genworth Mortgage Insurance, the Agency's mortgage insurance partner, will insure up to 35% of the loan balance and will provide job loss protection to the borrower. For Cal97, two months of payment reserves are required.

Cal97 allows first-time homebuyers to borrow up to 97% of the purchase price of a home, but requires the borrower to use at least 3% of their own funds in the purchase. By contrast, FHA allows borrowers to use government downpayment assistance to borrow the difference between the FHA maximum 96.5% LTV and the total price of the home. Both Cal97 and FHA programs allow the borrower to use government assistance programs to finance other closing costs.

Cal97 will also require a higher credit score than the FHA program. The Agency currently requires a FICO score of at least 640 on all FHA loans. Genworth has requested a FICO score of at least 720. We are in discussions with Genworth to allow a lower credit score, but a score that is higher than FHA will be required by Genworth.

The source of financing for Cal97 will be provided through the Agency's continued to use proceeds from NIBP and market bonds required under NIBP. In addition, the loans will be securitized through the use of a master servicer. As a result, the Agency will own mortgage backed securities that have a guaranteed income stream from Fannie Mae. With securitized collateral, the bonds used to finance the Cal97 program are expected to be rated Aaa/AAA

Once the NIBP ends at December 31, 2011, the Agency will be able to use the secondary market (i.e., the "TBA" market) to provide financing for the program. The use of the secondary market does not

require the issuance of CalHFA bonds. And, once the loans are sold in the secondary market, the Agency will no longer own the loans.

**MCC Program:** The mortgage credit certificate program is a new type of program for the Agency and will require additional development time and significant changes to the Agency's computerized loan reservation system before it can be offered to first time homebuyers. This program likely would not be available to borrower until January 2012.

Nevertheless, Board members were interested in the impact an Agency program would have on MCC programs offered by local governments. Staff conducted a survey of all Affordable Housing Partnership Program (AHPP) partners – the Agency's local government partners. Staff received 60 responses to the survey. A majority of the respondents do not offer an MCC program. Of those that do offer an MCC program, only 25% felt it could have a negative impact on their program. Of all respondents, 95% were in favor of linking MCC with our CalHFA first mortgage program. And 95% of all respondents were in favor of waiving the \$500 processing fee if MCC is used with a CalHFA first mortgage program.

Your approval of Resolution 11-09 is requested. Resolution 11-09 amends the Business Plan approved by the Board at the May meeting and allows the staff to continue to develop the Cal97 and MCC programs and offer those programs to borrowers during the 2011/12 and 2012/13 fiscal years.

RESOLUTION 11-09

HOMEOWNERSHIP 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 11-07 adopted May 19, 2011, which committed the Agency to a Business Plan for fiscal years 2011/12 and 2012/13;

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 additional information regarding two proposed Homeownership Division loan programs, to be included in the updated 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. The updated Homeownership 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, 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 and consistent with Resolution 11-06.

I hereby certify that this is a true and correct copy of Resolution 11-09 adopted at a duly constituted meeting of the Board of the Agency held on July 21, 2011, in Sacramento, California.

ATTEST:

  
Secretary

Attachment