Agenda Item 7 –

Resolution authorizing a TCLP extension for HMRB

September 20, 2012

Brief description of TCLP

- In 2009, the United States Department of Treasury, Fannie Mae, and Freddie Mac established the Temporary Credit and Liquidity Program ("TCLP") to:
    - aid state and local housing finance agencies with variable rate demand bonds, which faced increasing investor "puts" and expiration of credit facilities that were difficult or impractical to extend or replace.

The Agency still needs TCLP

- The Agency continues to rely on TCLP to support its financial viability.

- To replace TCLP with private market credit facilities, the Agency needs to:
  1. stabilize its credit ratings
  2. reduce the TCLP balance to an amount that can be absorbed by the private market

Update on S&P's credit review

	rating	outlook
▪ Issuer Credit Rating (G-O):	A-	negative
▪ HMRB (special obligation):	BBB	stable

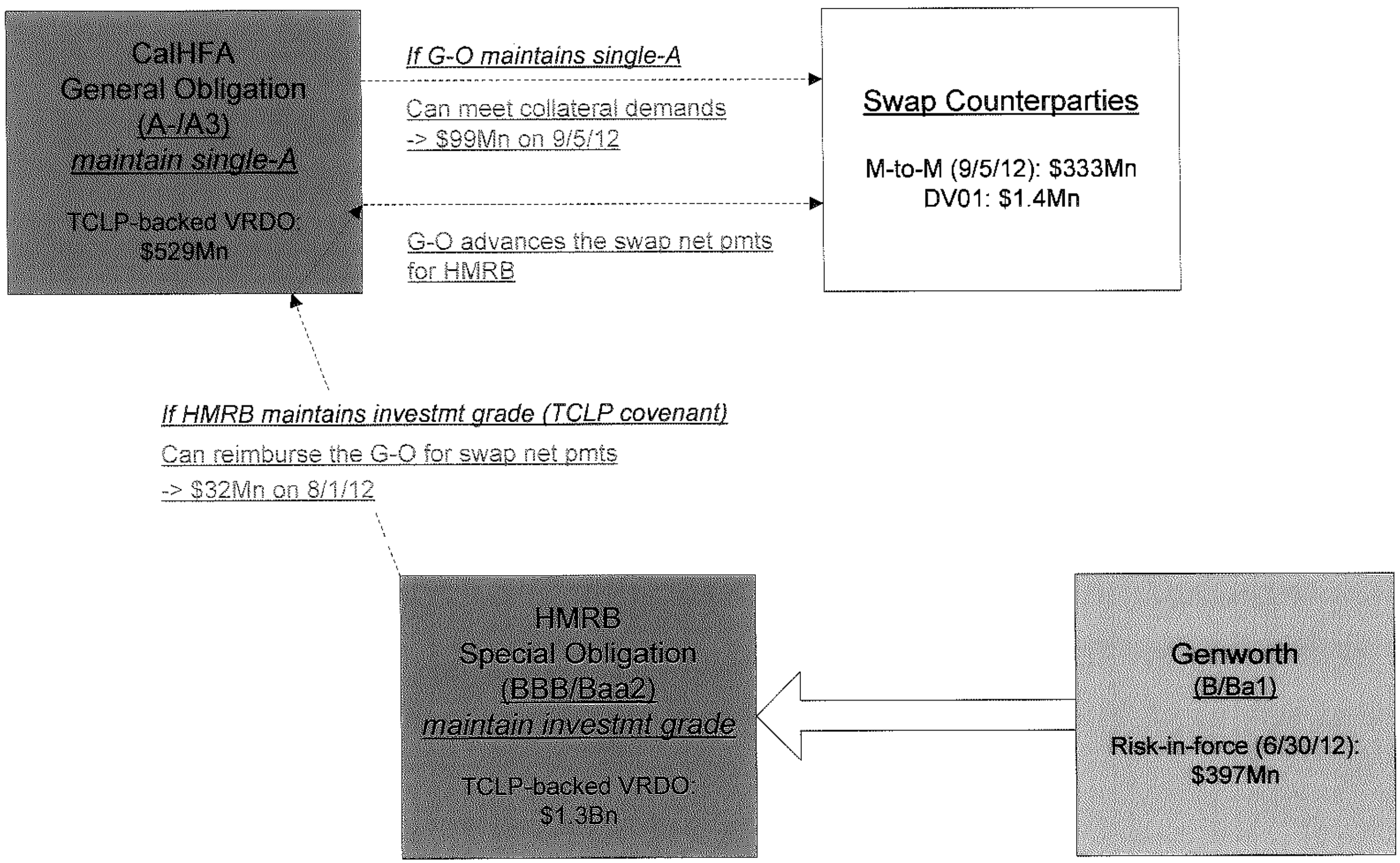
- On 9/18/12, S&P's affirmed the Agency's existing ratings and their outlooks
  - *Complementary*: "CalHFA's management has been very proactive in addressing the many challenges it faces."
  - *But cautious*: "CalHFA's objective of reducing its risk profile remains on ongoing task that has an uncertain future. This is because some of the greatest challenges still facing the agency… to be variables that remain beyond its control."

Update on Moody's credit review

	rating	outlook
▪ Issuer Credit Rating (G-O):	A3	review for downgrade
▪ HMRB (special obligation):	Baa2	review for downgrade

- On 7/2/12, Moody's placed both of the Agency's ratings under review for downgrade.
  - Triggered by Moody's 6/27/12 announcement that Genworth Mortgage Insurance Corporation has been placed on review for downgrade.
  - Genworth is a key counterparty for CalHFA because it provides mortgage reinsurance on approximately 40% of CalHFA's single family mortgage loans.

CalHFA's exposure to Genworth



Expected outcomes on potential rating actions

- Exposure to Genworth
  - Insurance-in-force: $1.4Bn
  - Risk-in-force: $397Mn

- Guesstimate of the "stressed" risk-in-force: $200Mn

- Scenario analysis on potential rating actions:
  - Ba1 (no downgrade) -> 45% credit = $90Mn ($200Mn*45%)
  - Ba2 (1-notch downgrade) -> 35% credit = $70Mn ($200Mn*35%)
  - Ba3 (2-notch downgrade) -> 25% credit = $50Mn ($200Mn*25%)
  - B1 (3-notch downgrade) -> 0% credit = $0 ($200Mn*0%)

Maintain ratings above thresholds

	CalHFA General Obligation		
	S&P's	**Moody's**	
Current rating	A- Negative Outlook	A3 Watch for Downgrd	
AA			Aa2
AA-	<< pre-2009 >>	<< pre-2009 >>	Aa3
A+		07/22/09	A1
A	03/31/10	10/26/10	A2
A-	05/12/11	09/19/11	A3
	------- single-A threshold -------		

	HMRB (Special Obligation)		
	S&P's	**Moody's**	
Current rating	BBB Stable Outlook	Baa2 Watch for Downgrd	
AA		<< pre-2009 >>	Aa2
AA-	<< pre-2009 >>	07/22/09	Aa3
A+			A1
A	04/01/10		A2
A-		04/20/10	A3
BBB+		06/06/11	Baa1
BBB	05/10/11	09/19/11	Baa2
BBB-			Baa3
	---- investment grade threshold ----		

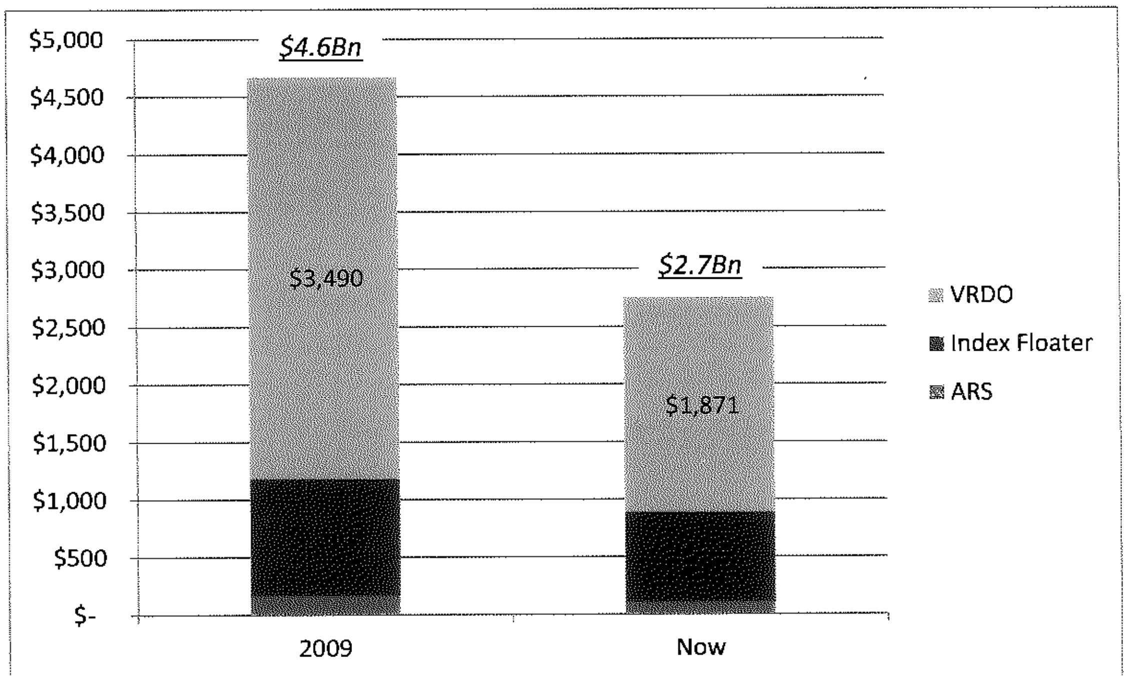
Projected plan to reduce TCLP

- To approve the extension, Treasury first needed to approve the Agency's projected plan to reduce TCLP over the next three years

- In August, the Agency submitted its final projected plan to reduce TCLP. The projected plan includes many of the strategies that the Agency has successfully executed over the past three years:
  - monetization of assets
  - bond refundings
  - loan modifications to acquire more assistance from KYHC

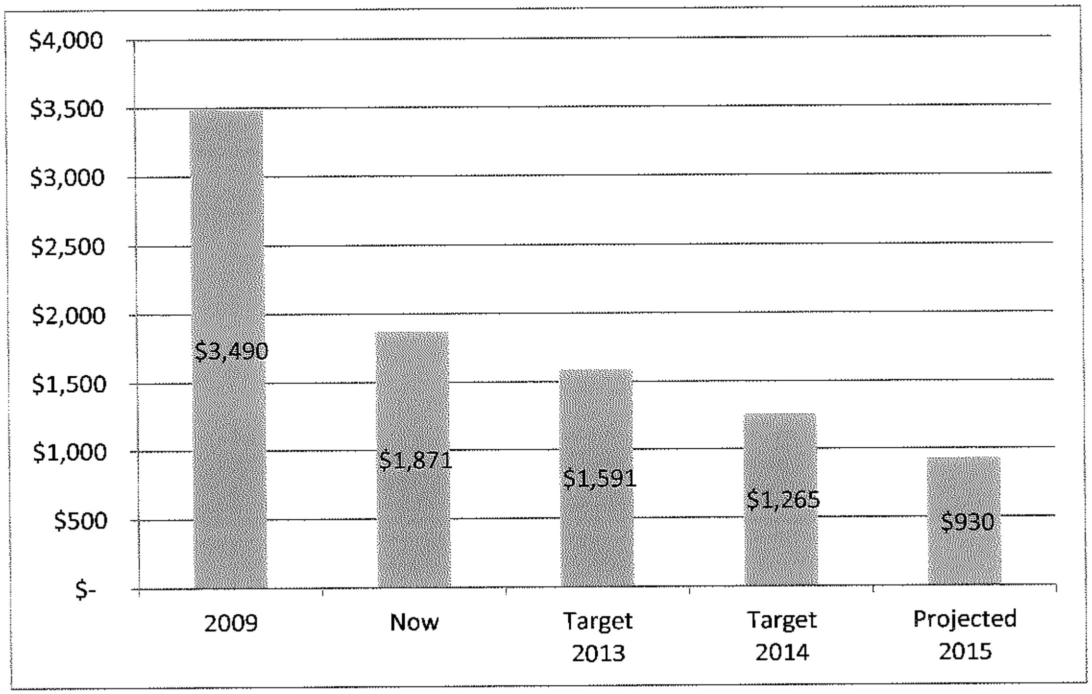
Results of 3 years of de-leveraging

- The Agency's variable rate debt has reduced by $1.9Bn over the last three years, and the % of variable-rate debt has declined from 61% to 48%.



High level objective of the projected plan

- Targets another 50% reduction of TCLP in the next 3 years
  - Reduced TCLP by nearly 50% in the last 3 years

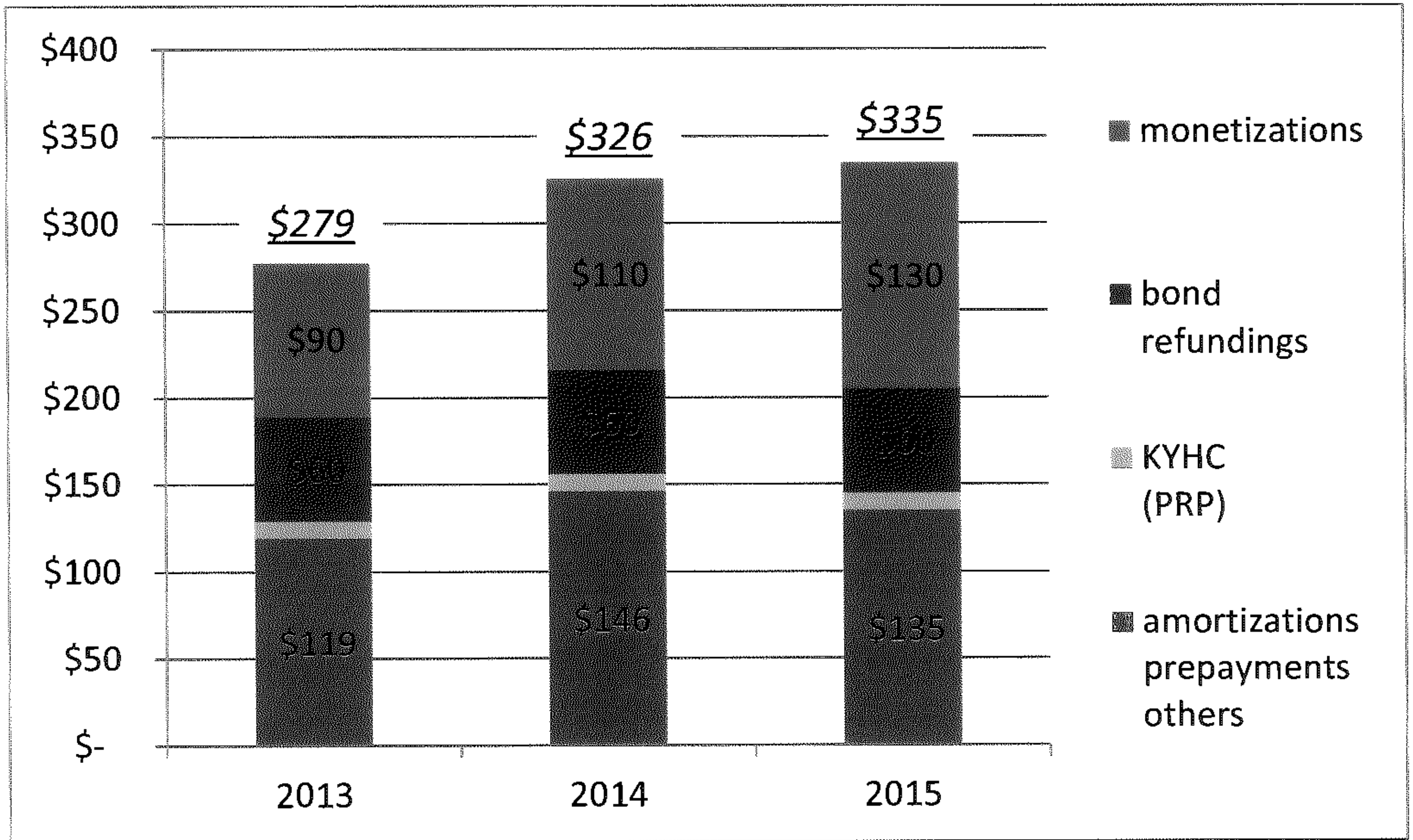


Significance of the Target TCLP balances

- If the actual year-end 2013 & 2014 balances are higher than the target year-end balances, then
  - Treasury will determine the feasibility of the strategies in the projected plan
    - If they were to determine that the Agency failed to execute feasible strategies, then they would assess a one-time penalty fee = 0.5%*(actual – target)
    - If they were to determine that the strategies were in-feasible, then no penalty

- If actual balances are lower than target balances:
  - Treasury will not question how they were achieved

Summary of strategies in the projected plan



"We are in the red zone"

- The Agency expects the projected plan will be approved in the next few days.
- Draft documents contemplate completion of the extension by 9/28/12

Brief summary of Resolution 12-10

- Would give the Agency specific authority to extend the maturity date on HMRB's TCLP to the end of 2015

- History of board resolutions:
  - Initially authorized the participation in TCLP with the adoption of Resolution 09-14 on 11/19/2009
  - The annual financing resolution, Resolution 12-01, adopted on 1/19/2012, authorizes amendments to TCLP
  - The GSEs and their counsel, however, have requested that the Board specifically authorizes and affirms all actions required in connection with the extension of TCLP

Agenda Item 8 –

Resolution authorizing a TCLP extension for MF-III and HPB

September 20, 2012

Brief summary of Resolution 12-11

- Would give the Agency specific authority to extend the maturity date on MF-III's and HPB's TCLP to the end of 2015

- History of board resolutions:
  - Initially authorized the participation in TCLP with the adoption of Resolution 09-14 on 11/19/2009
  - Annual financing resolutions, Resolution 12-01 and 12-02, adopted on 1/19/2012, authorizes amendments to TCLP
  - The GSEs and their counsel, however, have requested that the Board specifically authorizes and affirms all actions required in connection with the extension of TCLP

Agenda Item 9 –

Overview and discussion on Agency's implementation of updated CalHFA Loan Modification Program and Home Affordable Modification Program

September 20, 2012

Updating CalHFA' loan modification programs

- The Agency updated its loan modification program (CMP2) to meet the revised Keep Your Home California (KYHC) requirements and latest industry practices

- The goal is to modify as many loans as possible
  - To keep borrowers in their homes
  - To bolster the financial well-being of HMRB by acquiring more assistance from KYHC

CalHFA Modification Program Updates

- CMP been updated to CMP2 to conform with KYHC requirements
  - Principal forgiveness allowed to get loan to 140% LTV
  - Rate reduction occurs prior to loan term extension
  - Principal forbearance, if necessary, to get to 38% DTI

- Interest-only loans that are modified under CMP2 will be converted to fully amortizing loans

- All modified loans will be reviewed to ensure that there is an expected positive economic value to the bondholders

CalHFA HAMP Approval

- Many CalHFA servicers have not participated in CMP because they do not have the means to run two different loan modification programs
- The Home Affordable Modification Program run by the federal government is the industry standard for loan modification programs
- CalHFA has decided to allow HAMP-approved servicers to complete HAMP loan modifications
  - CalHFA servicing, among others, is not approved to perform HAMP loan modifications
  - The federal government provides incentives to the borrower, servicer, and investor for completing HAMP loan modifications

Ongoing Loan Modification Tasks

- The Agency is still working with Genworth to update the pre-claim advance agreement to CMP2
- Outside servicers must buy into one of the available loan modification programs in order to maximize KYHC contributions and loan payment sustainability
- Monitoring the effectiveness of CMP2 for encouraging loan modifications by borrowers and for loan payment sustainability is an ongoing tasks

CalHFA Mortgage Credit Certificate (MCC) Tax Credit program

- Board Resolution 11-09 approved the development of the Mortgage Credit Certificate (MCC) Tax Credit program
- The CalHFA MCC program was created to provide all Californians the ability to obtain an MCC in un-served counties and to fill-in when localities have exhausted their allocation
- The MCC program was announced on May 6, 2012

MCC Tax Credit Statistics

- 31 CalHFA lenders has been approved as MCC Participating Lenders
- 1 lender is approved as a MCC lender only, with 1 pending
- To Date:
  - 85 MCC applications have been reserved representing $3.9 million in first mortgages
  - 21 MCC have been issued

Moving Forward

- CalHFA has received inquiries from localities (e.g. Sonoma County) to assign their allocation to CalHFA
- CDLAC is expanding the MCC Program to offer:
  - Energy Efficient Home Improvement Loans
  - Qualified Rehabilitation Loans