CalHFA

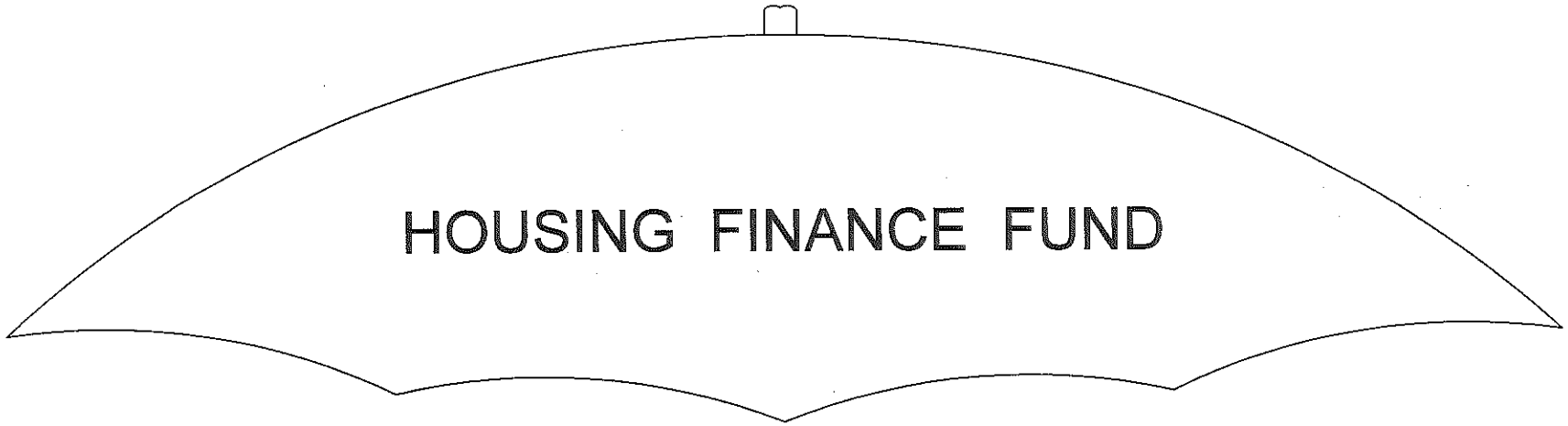
Agenda Item 6 –

Informational Workshop discussing
Board governance and overview
Of CalHFA's organizational structure
and business operations

January 17, 2013

Are we going to lend again?

High-level structure of CalHFA's balance sheet



HMRB
Special Obligation
(BBB/Baa2)

bond indenture: $3,146Mn in bonds outstanding

CalHFA
General Obligation
(A-/A3)

MF-III

bond indenture: $657Mn in bonds outstanding

Non-bond assets:
$480Mn in assets of which
$300Mn are liquid (cash/securities)

Operating Account

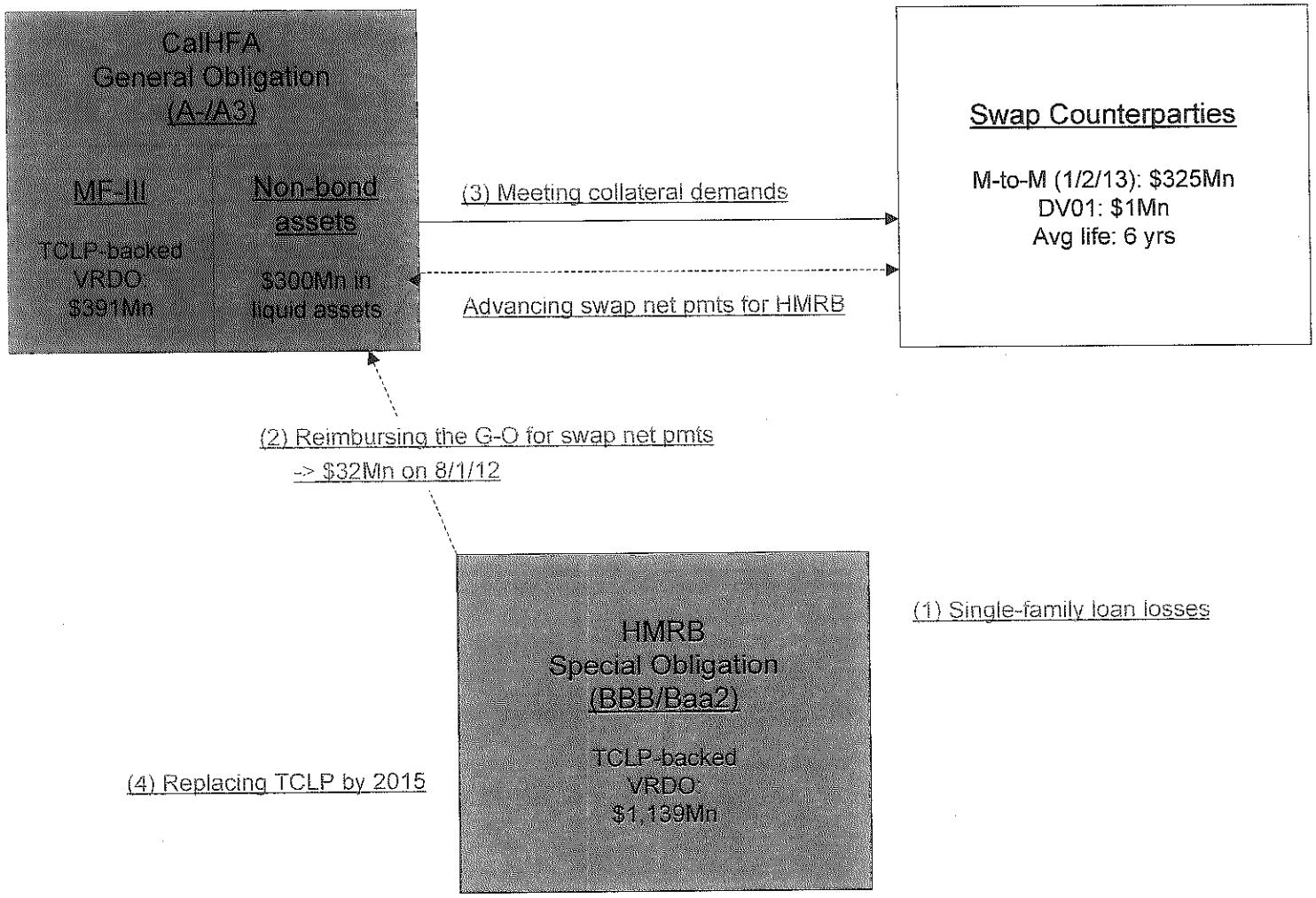
Housing Assistance Trust

Emergency Reserve

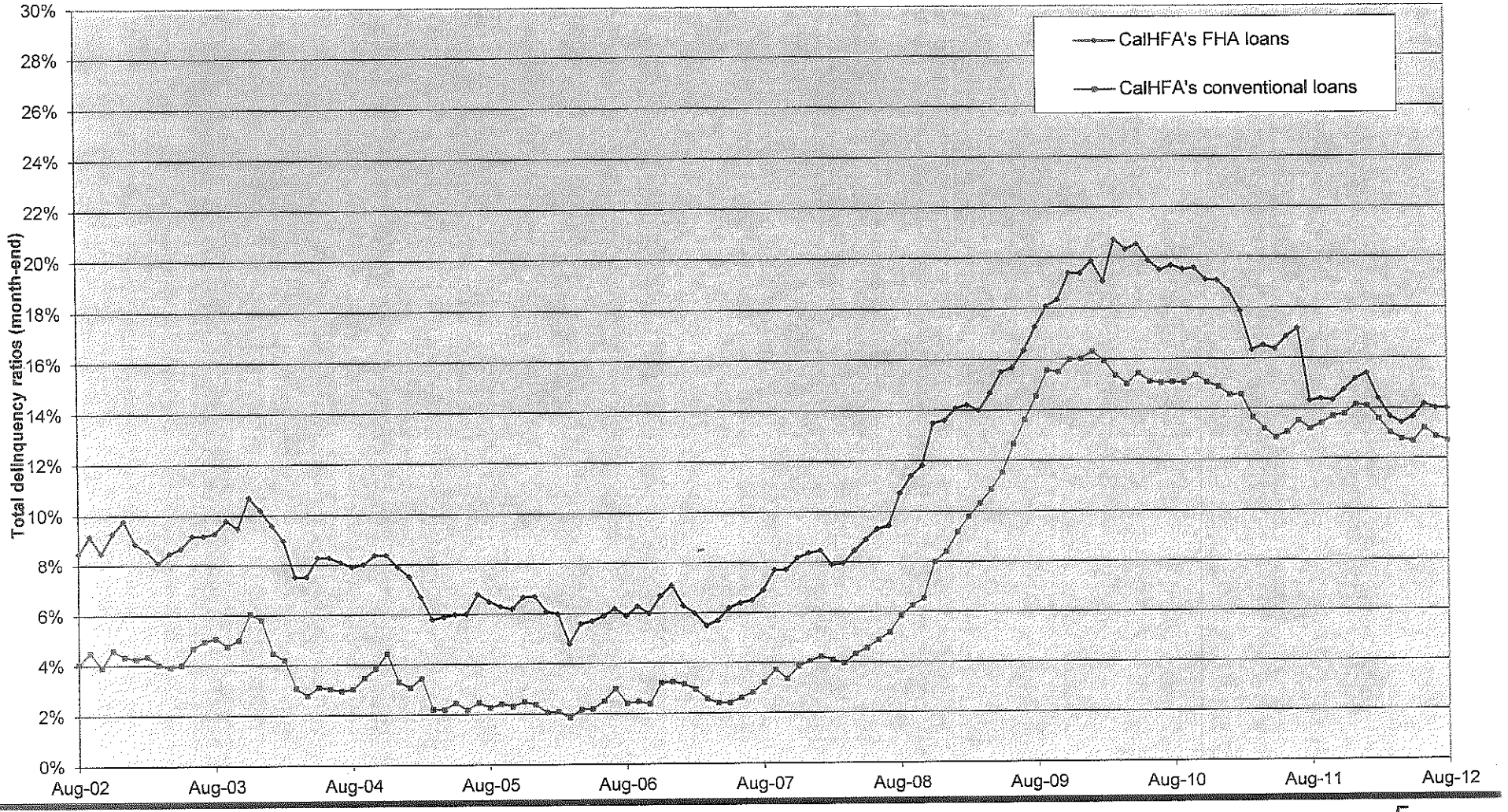
Contract
Administration

non-Agency funds

Four high level risks



1) High single-family delinquency rates have resulted in steep loan losses



… and precipitated a steep decline in credit ratings

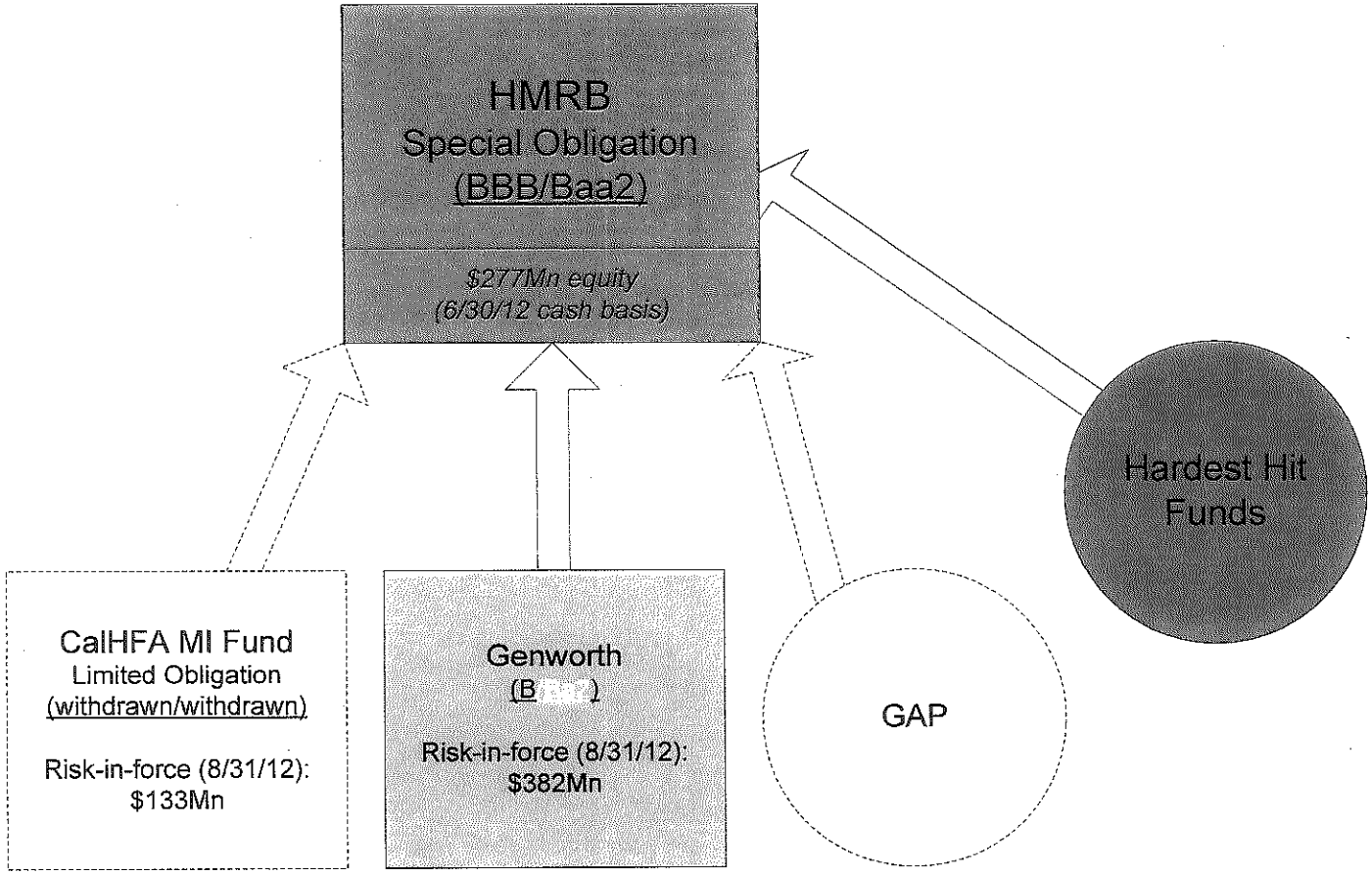
Current rating	CalHFA General Obligation		
	S&P's	Moody's	
	A-	A3	
	Negative Outlook	Watch for Downgrd	
AA			Aa2
AA-	<< pre-2009 >>	<< pre-2009 >>	Aa3
A+		07/22/09	A1
A	03/31/10	10/26/10	A2
A-	05/12/11	09/19/11	A3

——— single-A threshold ———

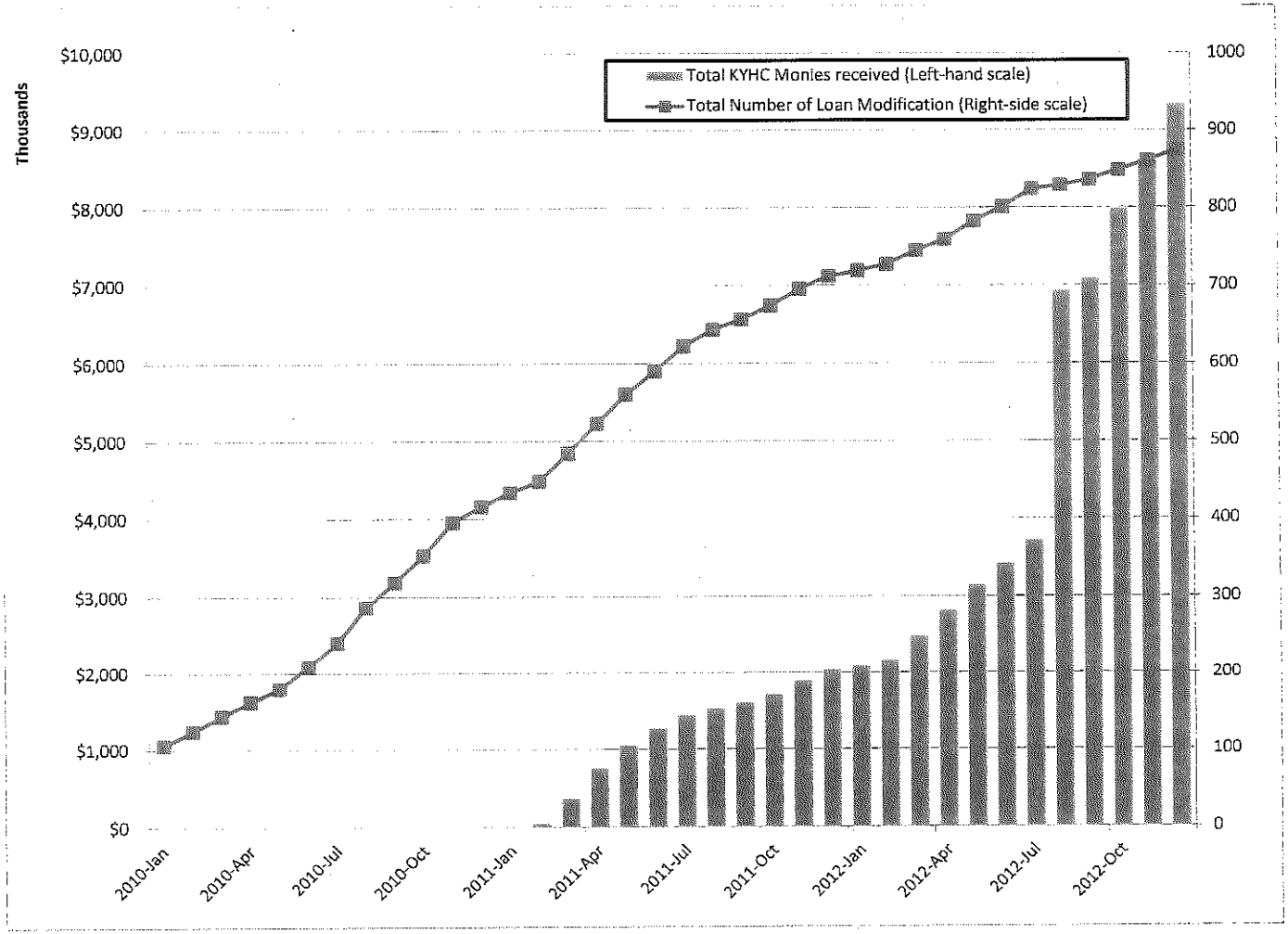
Current rating	HMRB (Special Obligation)		
	S&P's	Moody's	
	BBB	Baa2	
	Stable Outlook	Watch for Downgrd	
AA		<< pre-2009 >>	Aa2
AA-	<< pre-2009 >>	07/22/09	Aa3
A+			A1
A	04/01/10		A2
A-		04/20/10	A3
BBB+		06/06/11	Baa1
BBB	05/10/11	09/19/11	Baa2
BBB-			Baa3

—— investment grade threshold ——

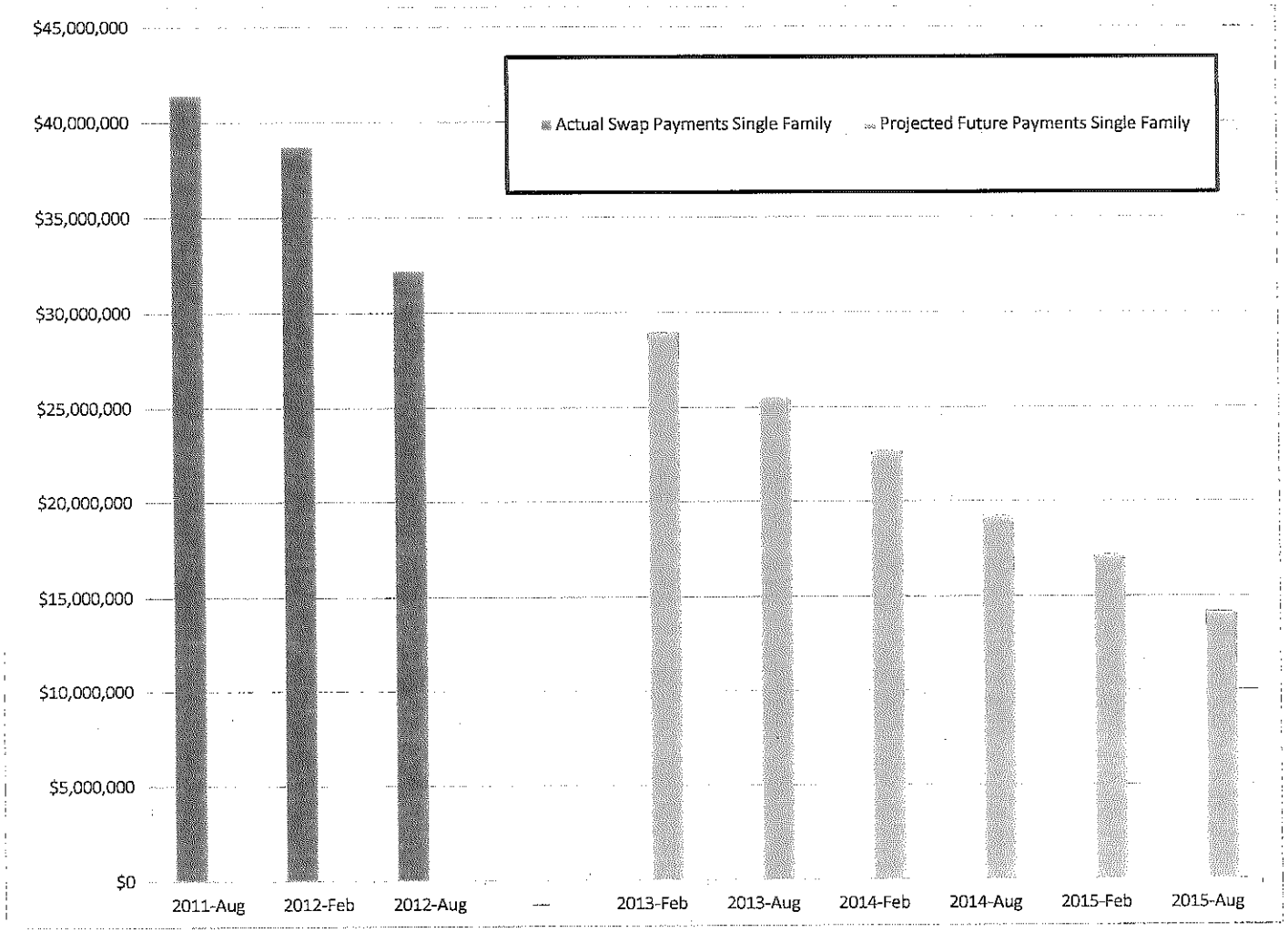
HMRB has several layers of credit enhancements, but their credit worthiness has weakened



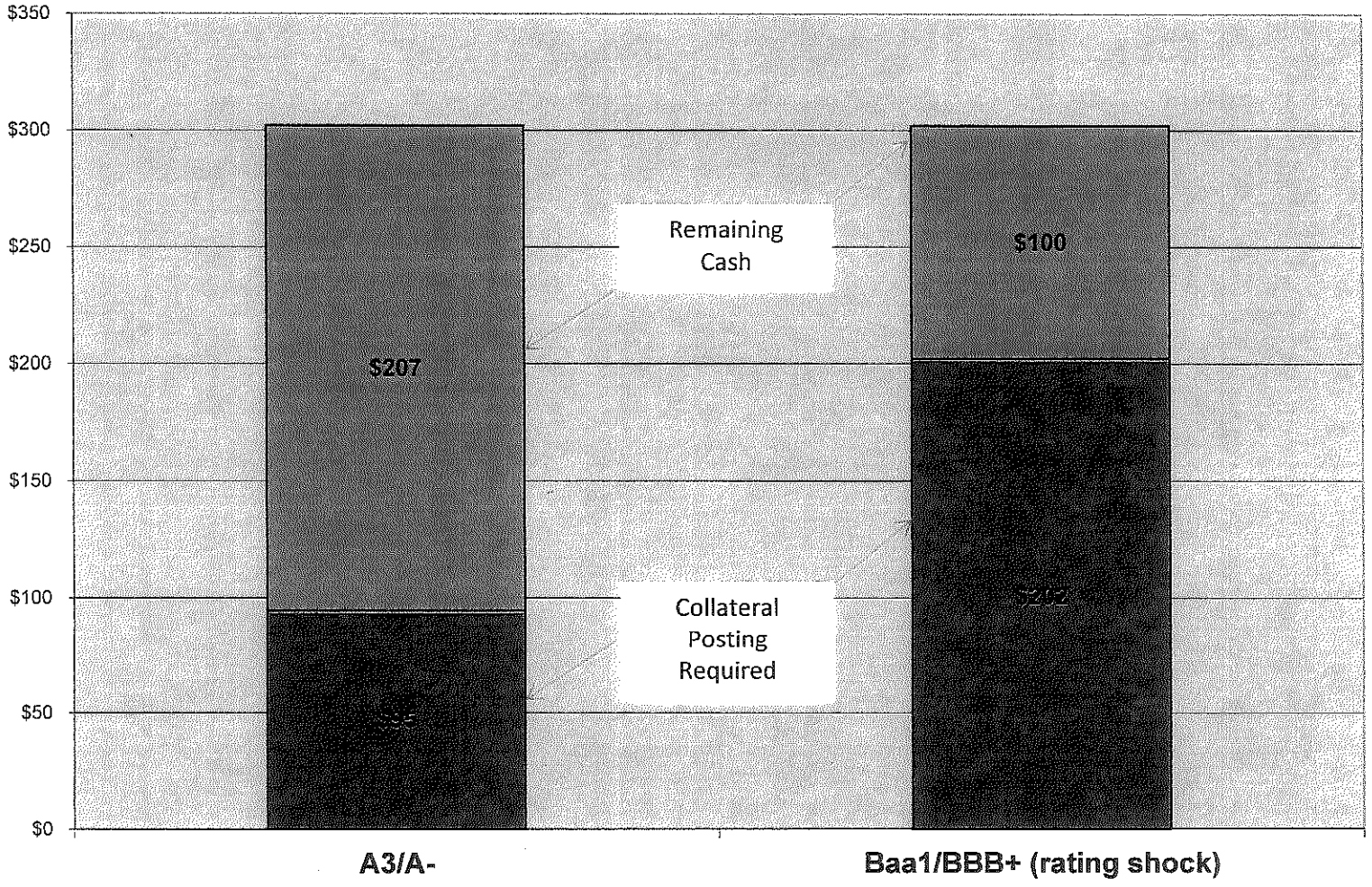
Loss mitigation strategy: modify more loans and acquire more assistance from KYHC



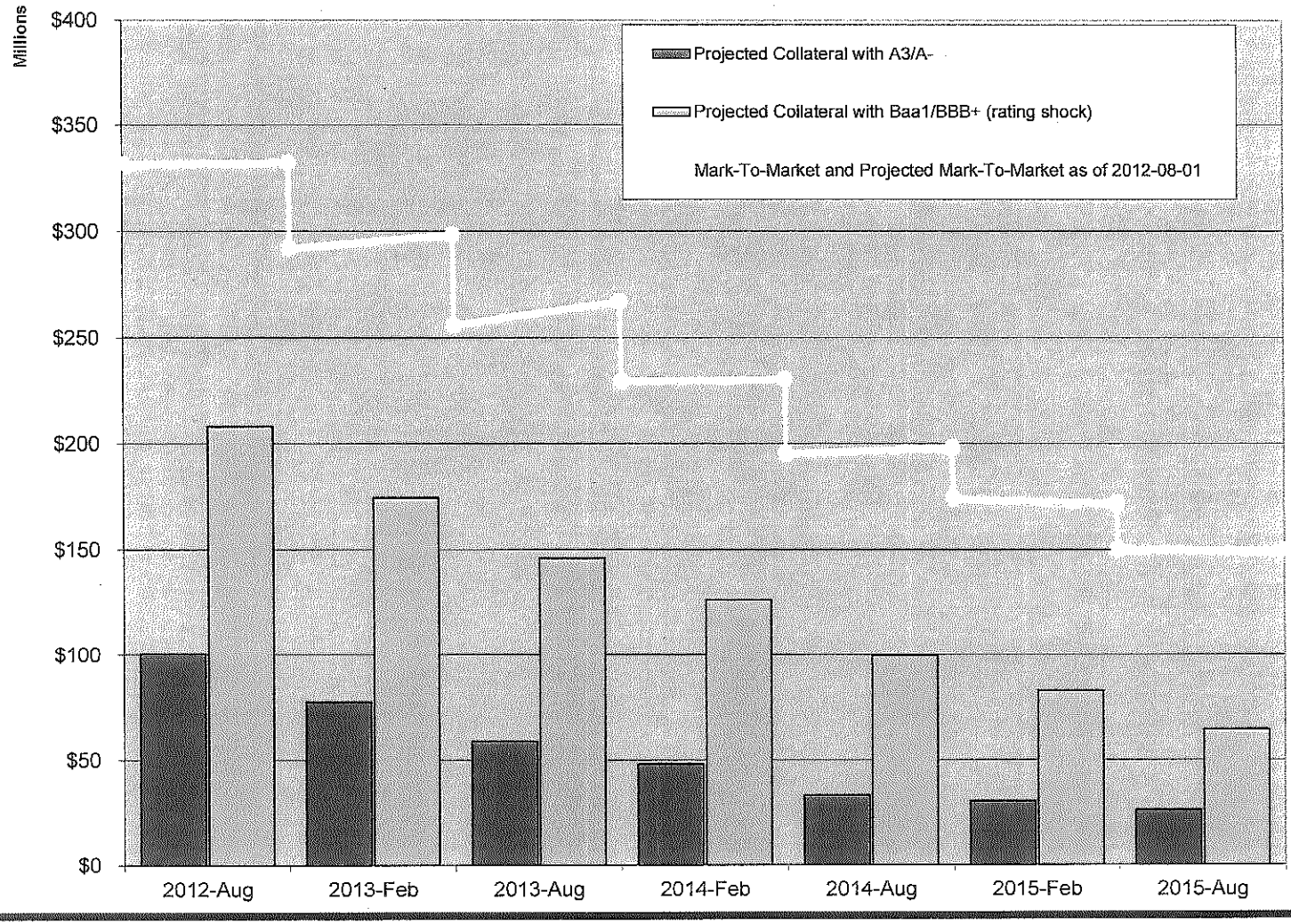
2) HMRB can only reimburse the G-O if it maintains investment grade ratings



3) Collateral posting required doubles if the G-O is downgraded one-notch



Risk mitigation strategy: exercise swap par termination options



4) Replacing TCLP is only possible if the Agency has decent and stable ratings

- In 2009, the US Treasury established TCLP to:
  - aid HFAs with expiring credit support facilities for variable rate bonds that were difficult or impractical to replace.
- The Agency continues to rely on TCLP to support its financial viability.
- To replace TCLP, the Agency needs to:
  - stabilize its credit ratings at decent levels
  - reduce the TCLP balance to an amount that can be absorbed by the private market

To lend the Agency needs to borrow

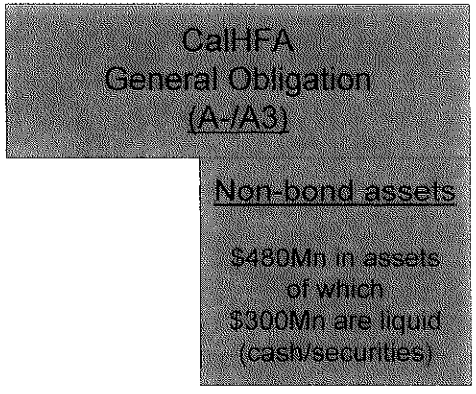
- Historically borrowed from the Municipal bond market by issuing tax-exempt Mortgage Revenue Bond

- Need a functioning capital market
  - Though inefficient, this borrowing channel is functional today.
  - Would issue bonds, however, under new Special Obligation indentures

Bond issuances also require seed capital and lending also requires capital set-aside

- e.g. the $70Mn MF risk-share deal in Dec required:
  - $2.2Mn (3%) of upfront cash contribution
  - $4.9Mn (7%) of capital set-aside

- Source of cash/capital:



...same source to meet collateral demands

Yes, we can!

But the use of cash/capital must be judicious

- Cannot repeat the production levels of yesteryear
  - single-family: $1.6Bn in 2006
  - multi-family: $240Mn in 2004

- Cash/capital intensity for near-term lending initiatives are lower than historical:
  - MF will require more: lender/issuer
  - SF will require less: securitizing FHA loans for TBA