Single Family Lending

Proposed CalHFA First Mortgage Loan Programs

January 17, 2013

Objective

In accord with our Mission*, provide low and moderate income first-time homebuyers the opportunity to secure a responsible low interest rate mortgage with bond-funded down payment and Mortgage Credit Certificate Tax Credit assistance. Year 1 volume target, $300 million.

**CalHFA Mission Statement:*

To create and finance progressive housing solutions so more Californians have a place to call home.

Strategies

- Develop products that serve the needs of CalHFA's distinct first-time homebuyer population
- Design products that address the Governor's sustainability, energy efficient and targeted economic development policies
- Develop lessons-learned matrix and review HFAs' TBA product characteristics and performances
- Minimize risk by tightening borrower underwriting requirements
- Remove loan risks by using Master Servicer & Hedging Facilitator services
- Limit CalHFA program to FHA products due to lack of a competitive advantage vs. conventional loans:
  - Inability to participate in the HFA Fannie Mae Agreement because of the Agency's current credit rating
  - Lack of CaHLIF Mortgage Insurance fund differential
- Generate revenue to offset administrative costs and address Rating Agency concern

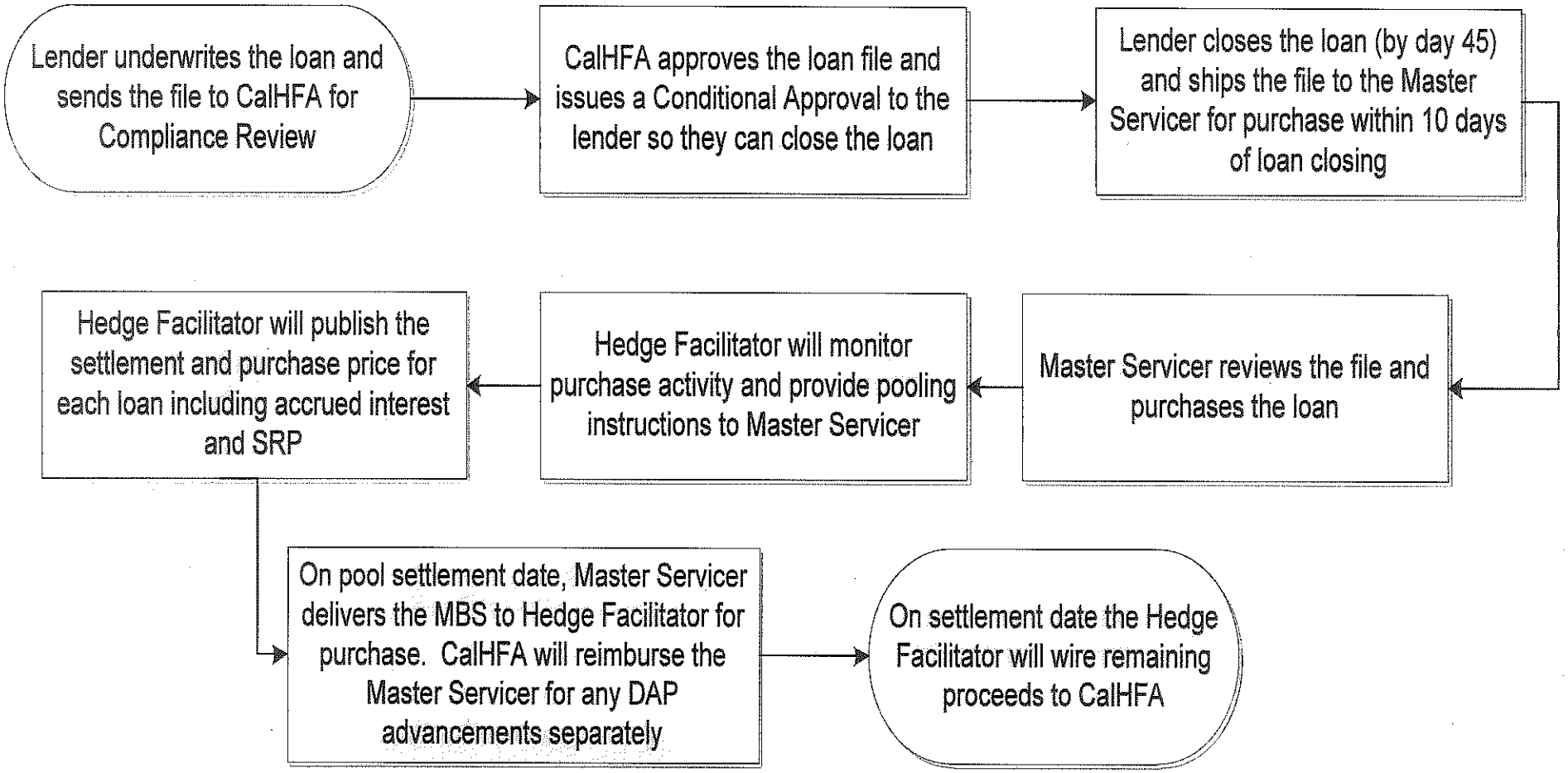
Borrower Protection

- CalHFA Homebuyer Education required for all borrowers
  - FHA does not require HBE
- Maximum total Debt-to-Income (DTI) of 45%
  - FHA will allow as per AUS underwriting findings up to 60%
- 640 minimum FICO score requirement
  - FHA allows for 580 minimum FICO score
- Borrower contribution towards down payment:
  - $1,500 to $2,500 depending on FICO score
  - FHA will allow the borrowers to be refunded all cash contributions

Agency Risk Mitigation

- Market fluctuation risk
  - The use of a Hedging Facilitator will eliminate the market risk to Agency.
  - The Hedger will take on all market risk
- Underwriting & Loan Servicing Representations (Reps) & Warranties
  - The Master Servicer will be servicing all of the loans, CalHFA will not be servicing any of the loans for this program
  - The use of a Master Servicer will eliminate the underwriting & loan servicing Reps and Warranties to the GSE
  - The Master Servicer will take on all underwriting & loan servicing Reps and Warranties

CalHFA TBA Program Process Overview



Proposed New Loan Programs

- CalHFA FHA Advantage
  - Built-in down payment assistance

- CalHFA FHA
  - With CalHFA down payment assistance program targeted to high cost growth areas

CalHFA FHA Advantage

- Financed through sale of premium-priced mortgages currently ranging from 104% to 106% of par
  - Sold as Mortgage Backed Securities (Ginnie Mae MBS) through a Hedging Facilitator
  - Pricing will allow for the creation of the down payment assistance loan (DPA)

- First mortgage rate will be approximately 50 basis points over the market rate to finance down payment assistance. (e.g. market rate 3.39% + .50% = 3.89% first mortgage rate)
- Down payment assistance will range from 3% to 4.5% in high cost areas
- Zero interest rate deferred payment on the DPA portion
- Can be combined with CalHFA's California Homebuyer's Downpayment Assistance Program (CHDAP), Extra Credit Teacher Program (ECTP), or Mortgage Credit Certificate program (MCC)

CalHFA FHA

- Financed through the sale of market rate mortgages and sold as MBSs
- Can be combined with CalHFA's CHDAP, ECTP or MCC programs
- Agency will use approximately $9 million in Home Purchase Assistance funds for down payment assistance targeted to high cost areas

Operational Policies

- All programs will be capped at 103% combined loan-to-value
- All loans will require a cash investment from the borrowers
  - Tiered based on the borrowers' credit score (example)
    - 640 – 679 $2,500 required
    - 680 – 850 $1,500 required
- All loans will require a maximum Debt-to-Income (DTI) ratio regardless of automated underwriting system results
  - 45% maximum total DTI
- CalHFA Homebuyer Education based on national standards for all borrowers
- Program will require a Master Servicer and a Hedging Facilitator

Future Considerations

- Developing transit neighborhood program to increase CHDAP loan amount from 3% to 5%.

- CalHFA FHA Energy Efficient Mortgage (EEM) + Grant
  - This loan will require CalHFA statutory change to make the Grant
    - Financed through the sale of premium priced mortgages and sold as MBSs
    - Premium price will allow for the creation of the EEM Conditional Grant
    - Can combined with CalHFA's CHDAP, ECTP or MCC programs