Agenda Item 6 and 7 –

March 7, 2013

Roadmap for today's discussions

1 **Update on swap collateral posting risk**

Why is this risk better contained today? Nevertheless, how much cash is set-aside for this risk?

2 **Proposed capital allocation**

What are the sources to support the Agency's operating expenses for the next 3 years?

Yes, we can! How much money can be allocated to support lending?

3 **Update on SF lending program**
Agenda Item 7

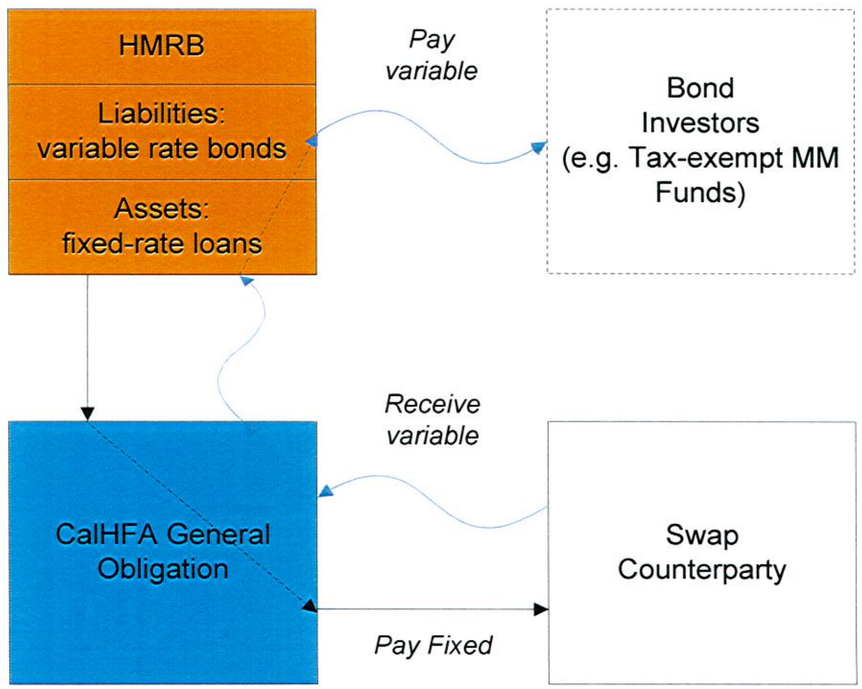
4 **Update on MF lending program**
Agenda Item 6

5 **Financing resolutions for 2013**
Agenda Item 8 and 9

Update on swap collateral posting risk

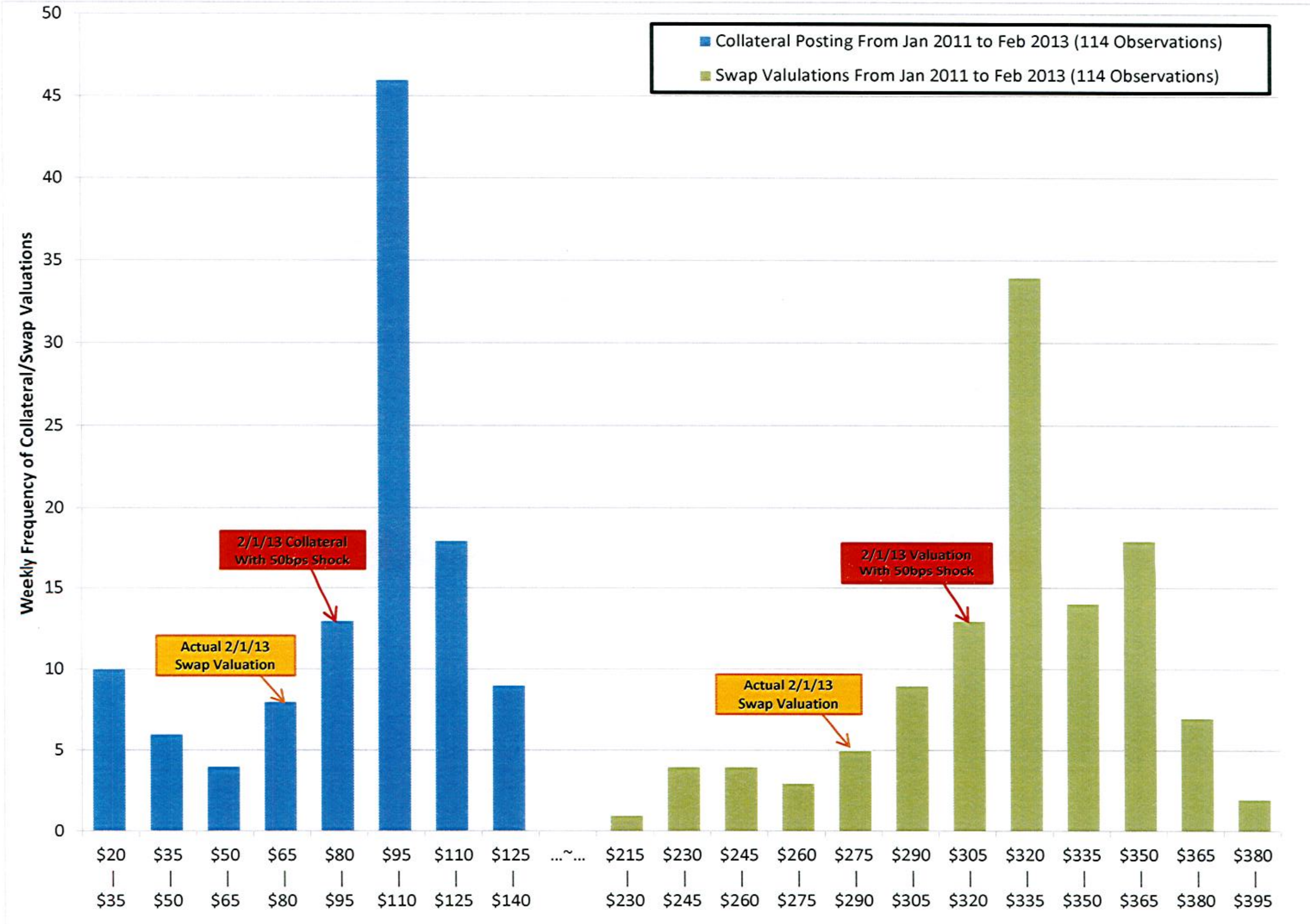
Why do we have interest rate swaps?

- Intended to hedge the floating interest rate risk of variable-rate financings

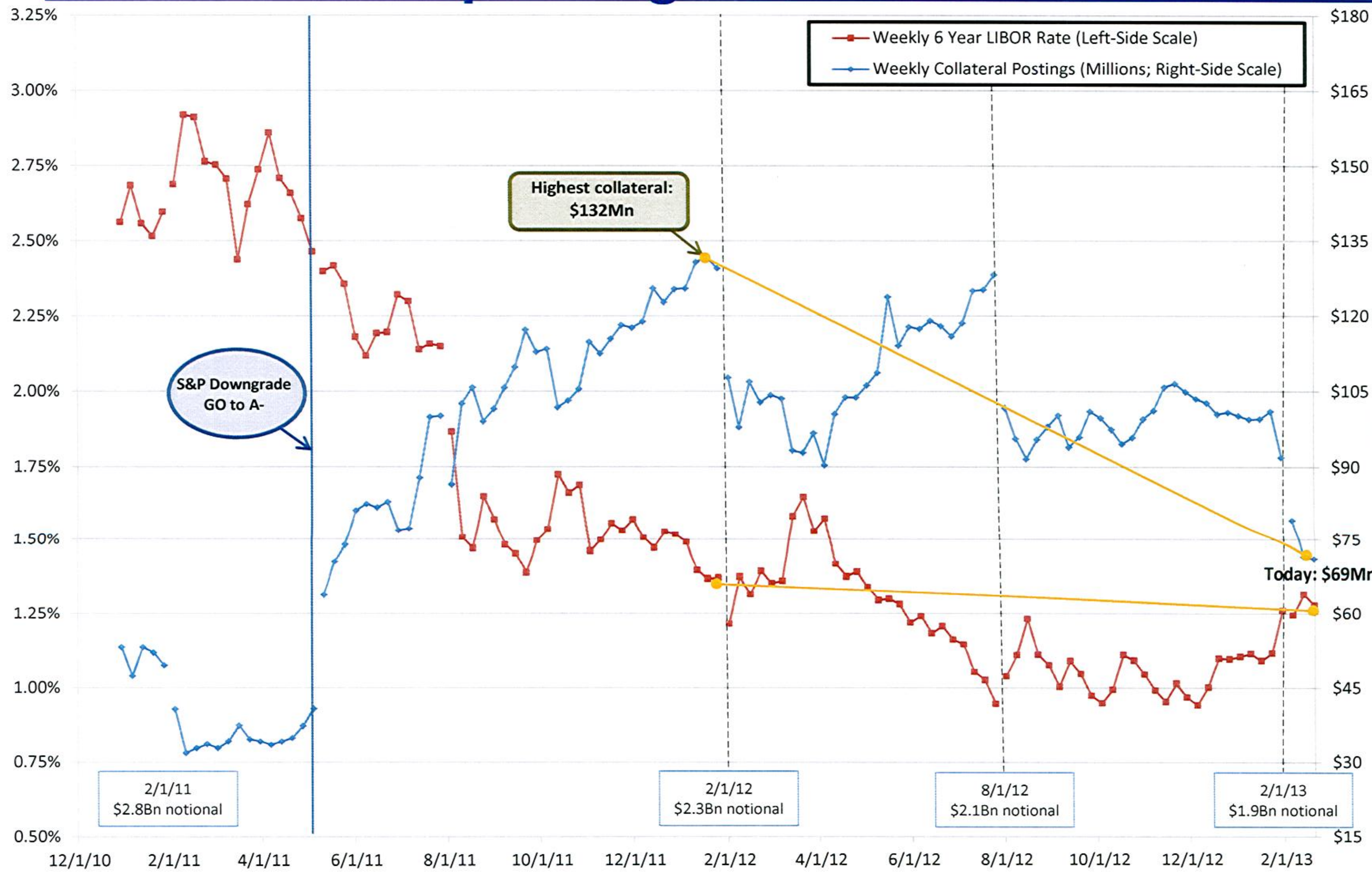


Declining rates result in negative swap valuations

The most negative valuation is likely behind us



The collateral posting risk is better contained

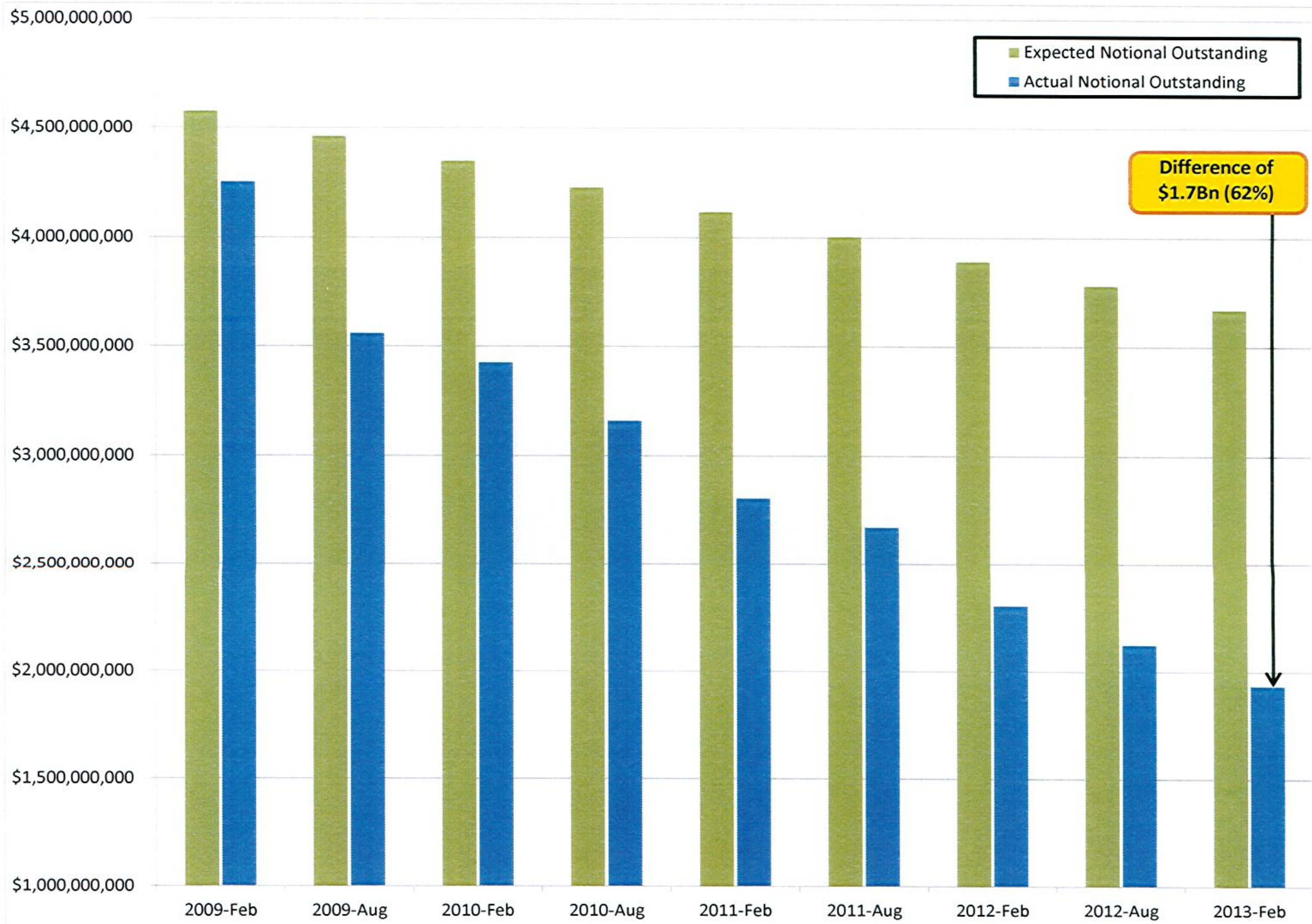


Why do we have to post collateral?

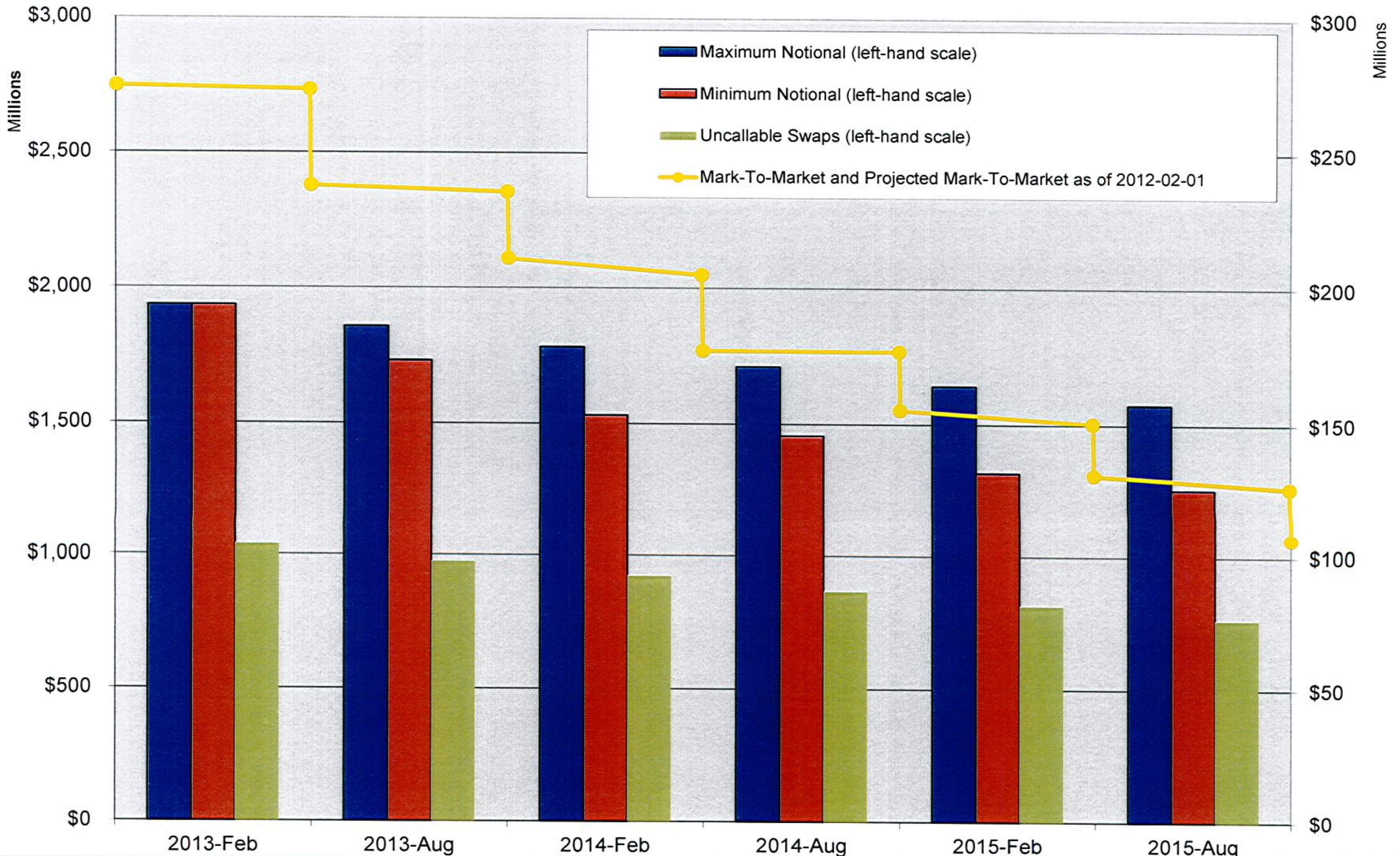
- As the credit rating of Agency's GO suffered successive downgrades, the collateral posting thresholds became lower and lower.

	Collateral Thresholds		
	Original Thresholds	*1st Restructuring*	*2nd Restructuring*
AA-/Aa3	infinity		
A+/A1	$40Mn	$55Mn	$55Mn
A/A2	$27Mn	$50Mn	$50Mn
A-/A3	$14Mn	$40Mn	$40Mn
BBB+/Baa1	$5Mn		$20Mn

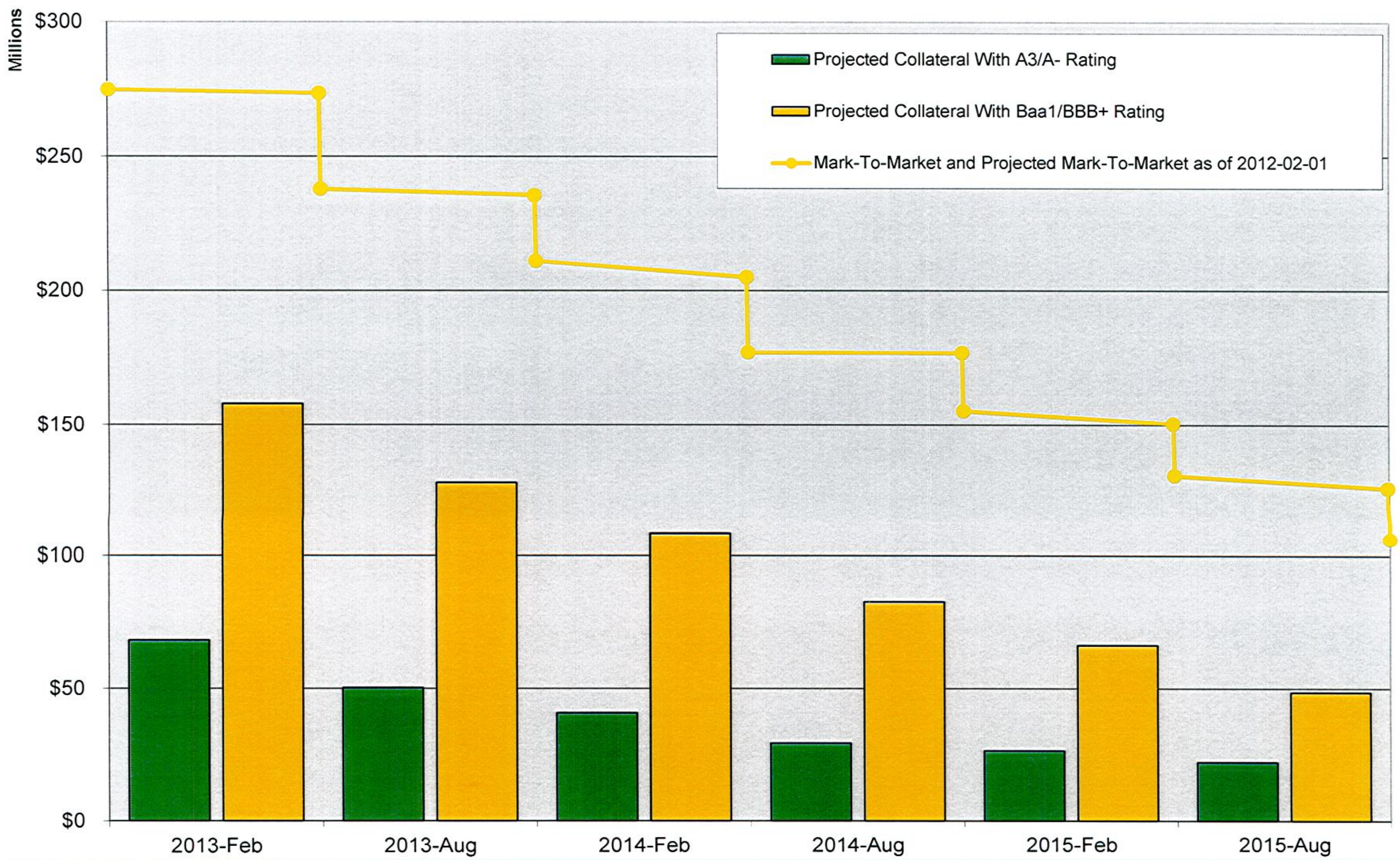
Have aggressively reduced swap notional



Projected swap valuations decline over time



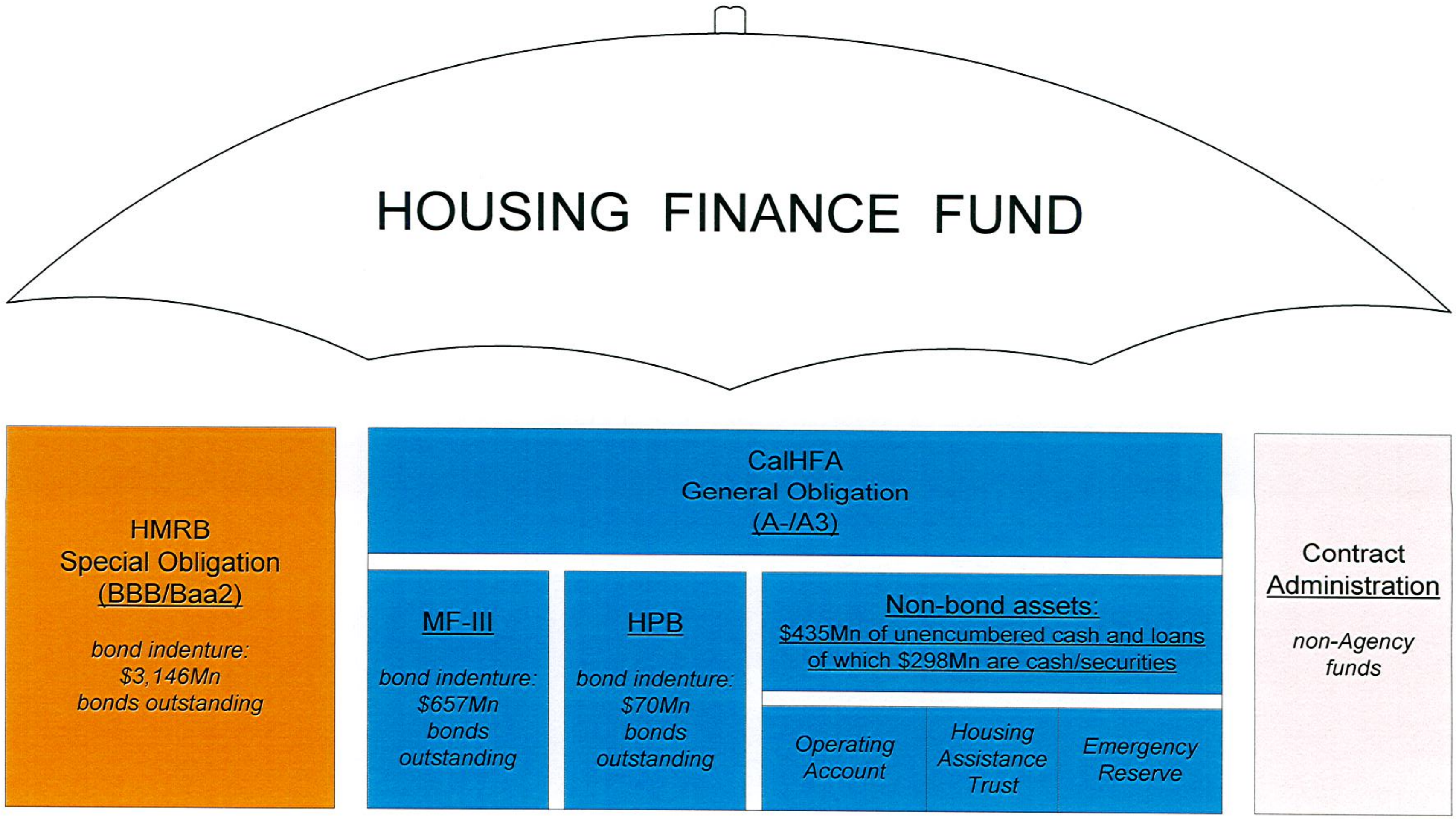
Projected collateral requirements also decline



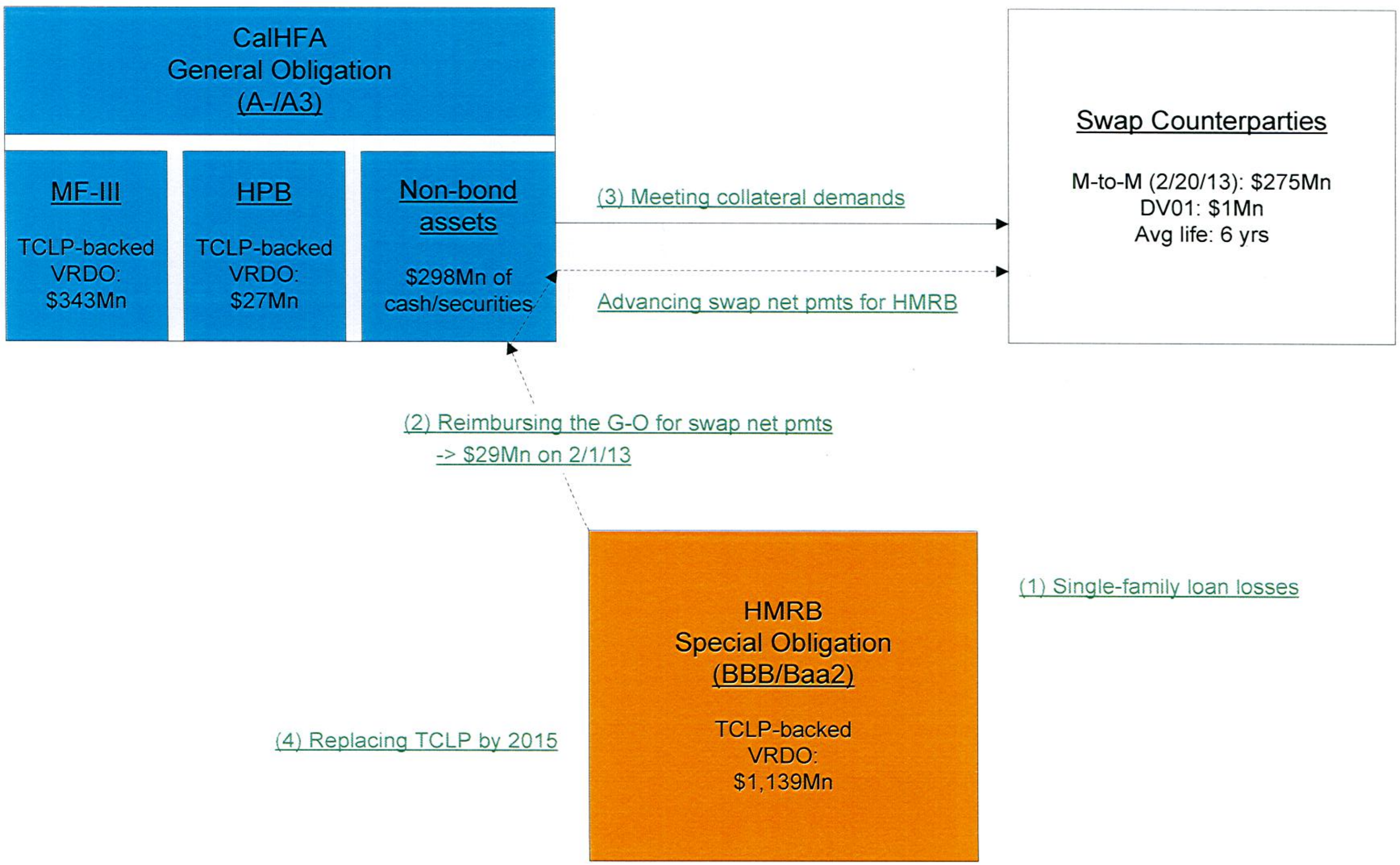
The collateral posting risk is better contained today

Proposed capital allocation

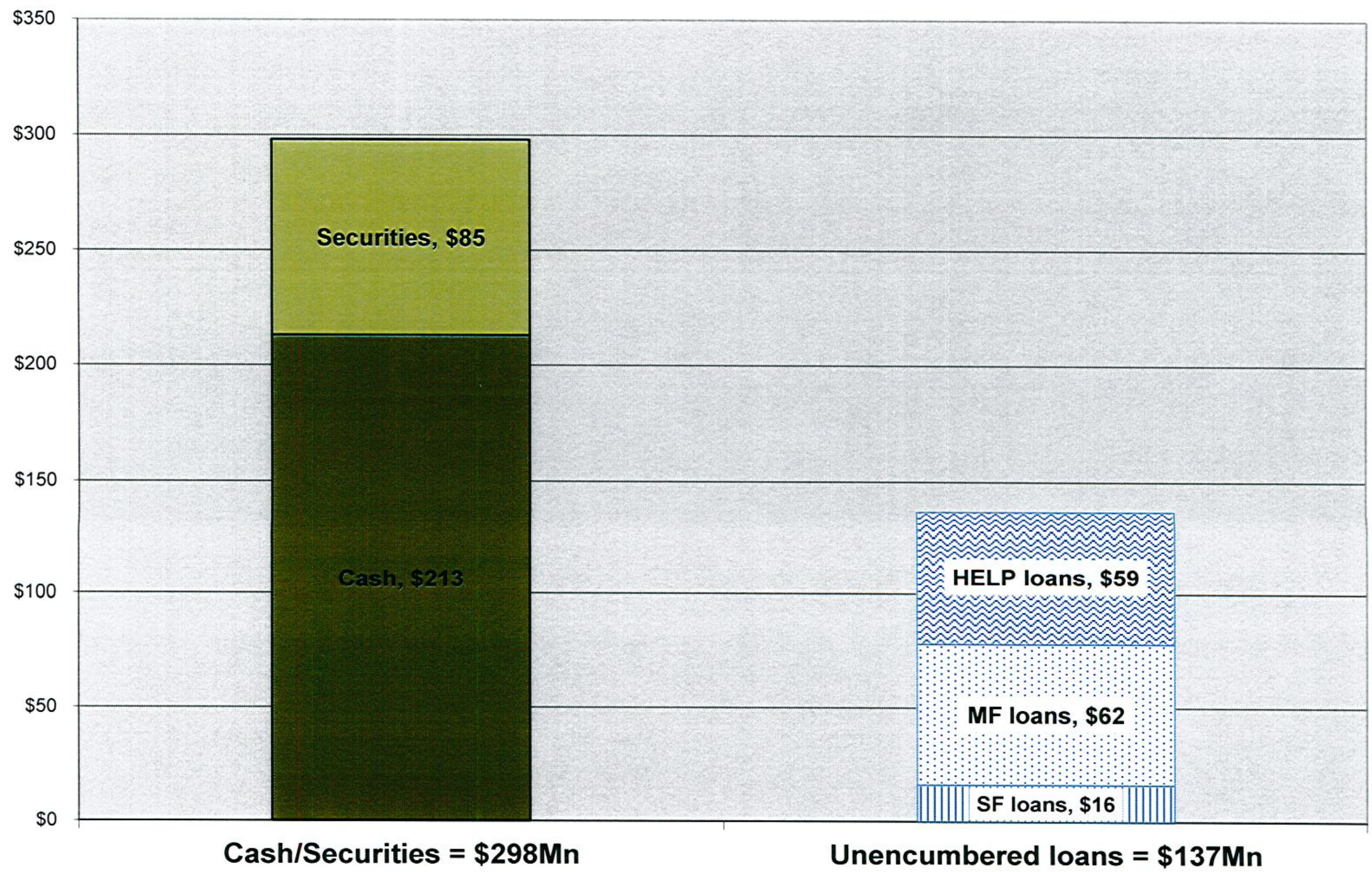
High-level structure of CalHFA's balance sheet



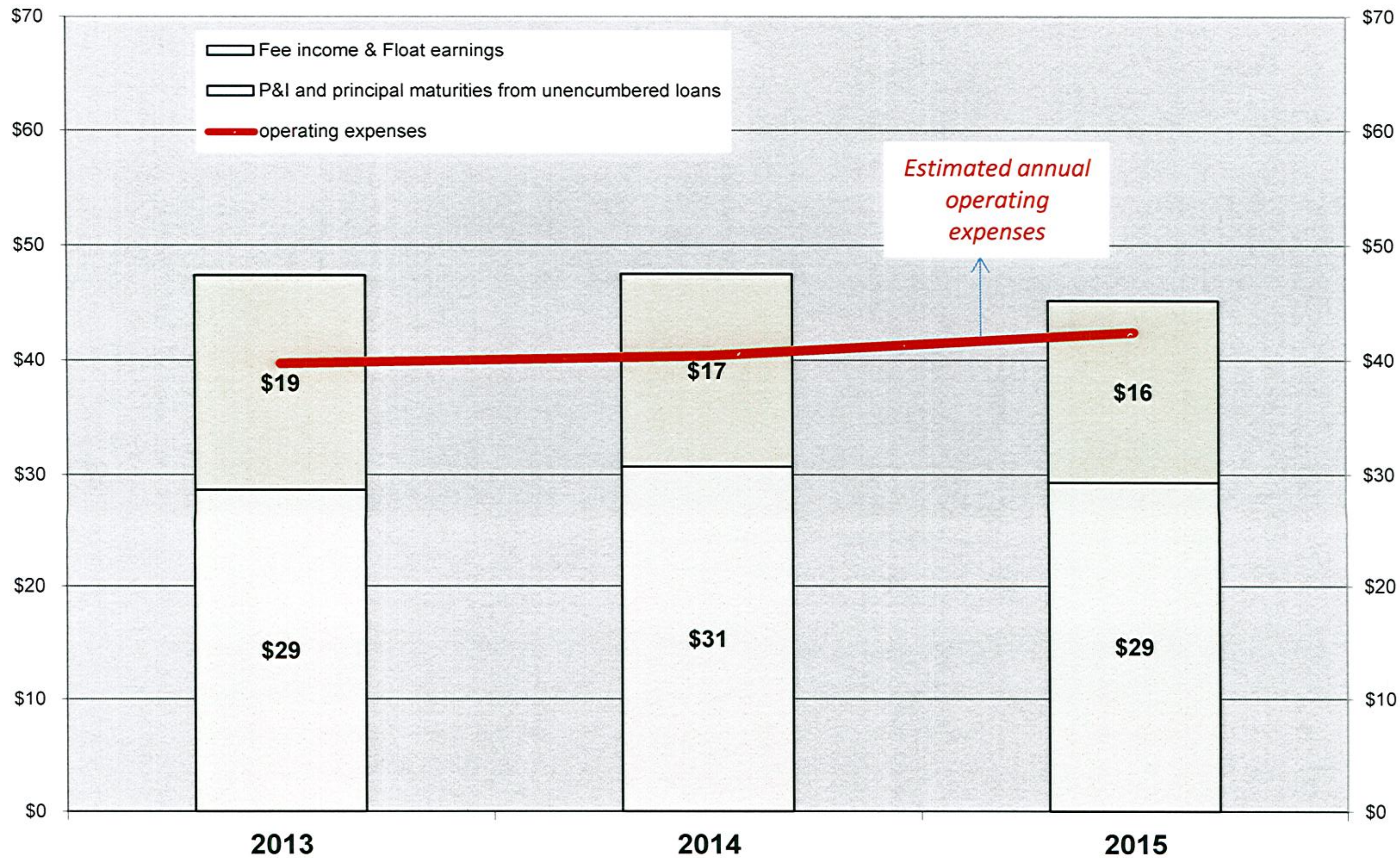
Four high level risks



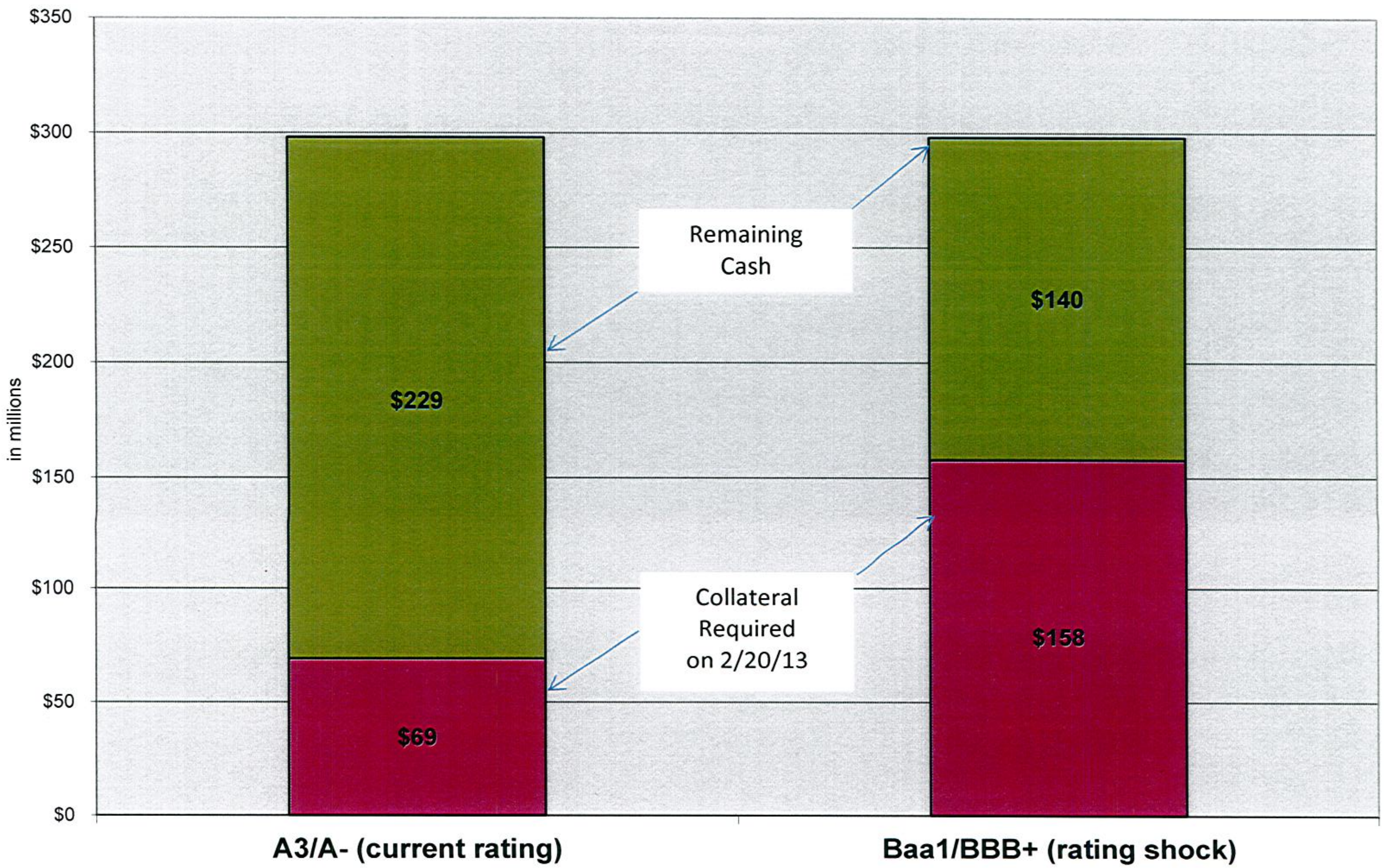
Total unencumbered cash and loans = $435Mn



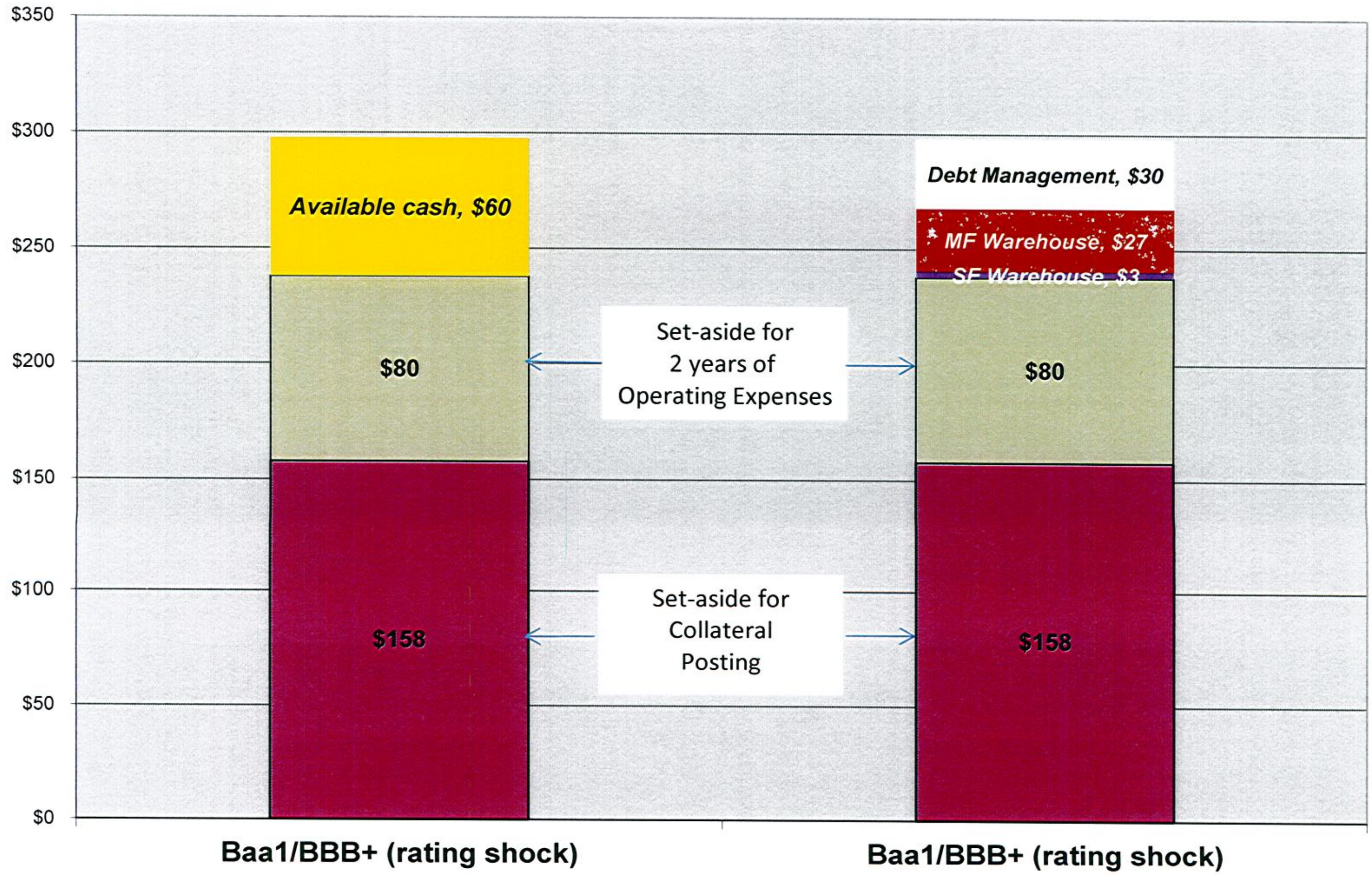
Even without contributions from HMRB & MF-3, still able to cover the Agency's expenses



Improved cash position with fewer unknowns



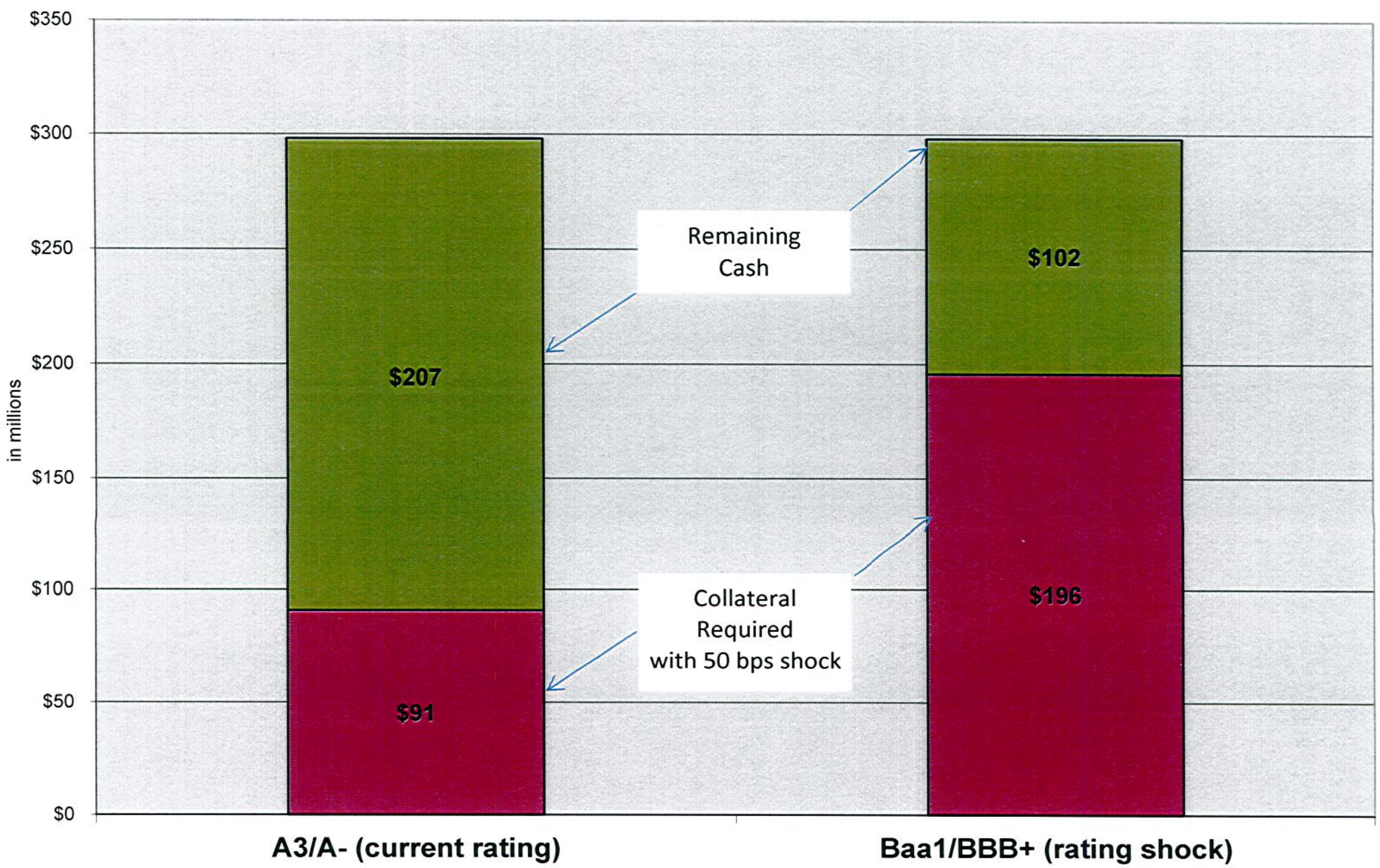
Proposed allocation of liquid capital



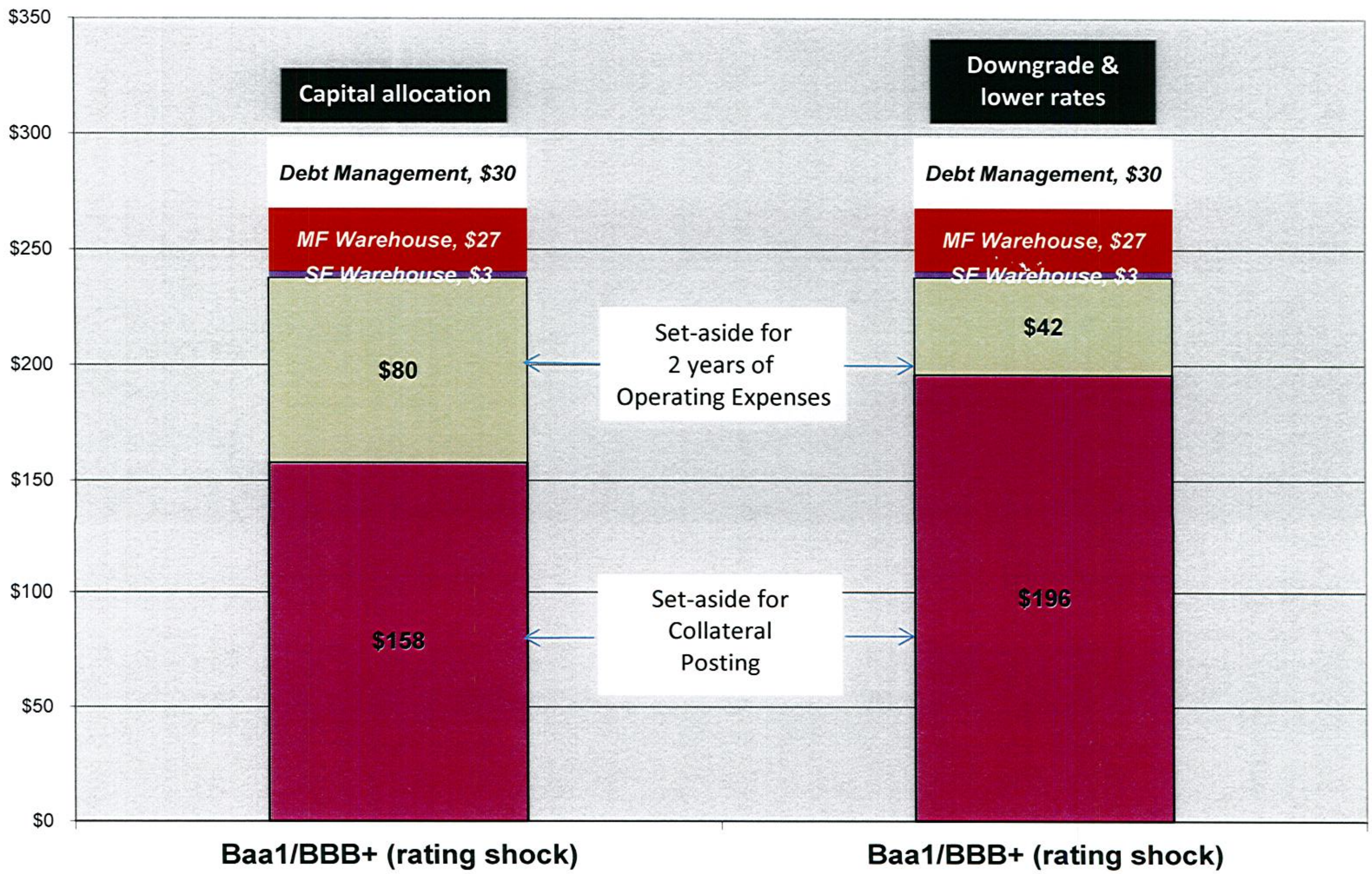
Rationalizing the proposed allocation

- 9:1 allocation between MF:SF warehouse lines
  - $27Mn for MF: facilitate the timing of loan closings to bond closings
  - $3Mn for SF: advance funding of DPA (down-payment assistance) loans
- 1:1 allocation between program warehouse lines and debt management
  - $30Mn for program warehouse lines
  - $30Mn for debt management

What if.. testing lower rating with lower rates



… can meet the stress scenario



Yes, we can support lending
by providing $30Mn
of warehouse lines
(not grants, not subsidies)

Agenda Item 7 - Update on SF lending program

Use of the TBA funding model

- At the January Board meeting, we introduced a single-family TBA funding model in conjunction with two DPA products (CHAP & CHDAP)
- Today, we are presenting the risks associated with this TBA model
- We are currently working on various SF loan products which will utilize the TBA model and best serve the dynamic housing needs of the people of California
- In May, we will formally ask the Board for approval to use the TBA model and associated products

Direct funding of the DPA loans

- It is possible that we may have to fund certain down payment assistance loans at the loan closings, in advance of the sale of the MBS

- The Agency is creating a warehouse to fund these DPA loans, if necessary

What is a TBA?

- In a TBA (To-Be-Announced) transaction, the parties agree on a *price* for delivering a given *volume* of MBS at a *specified future date*.

- What are the risks for the lender?
  - *price*: must deliver a specific coupon
  - *volume*: must deliver a specific loan amount
  - *specified future date*: must deliver loans on a specific date

Delivery risks turn into interest rate risk

On 3/1/13

On 5/1/13

lender
takes down a commitment

commit to deliver

$1Mn Ginnie Mae
4% coupon
settlement price: 100%

successful delivery

will receive $1,000,000

Prevailing rate < 4%

Prevailing rate > 4%

failed delivery

pays premium

receives discount

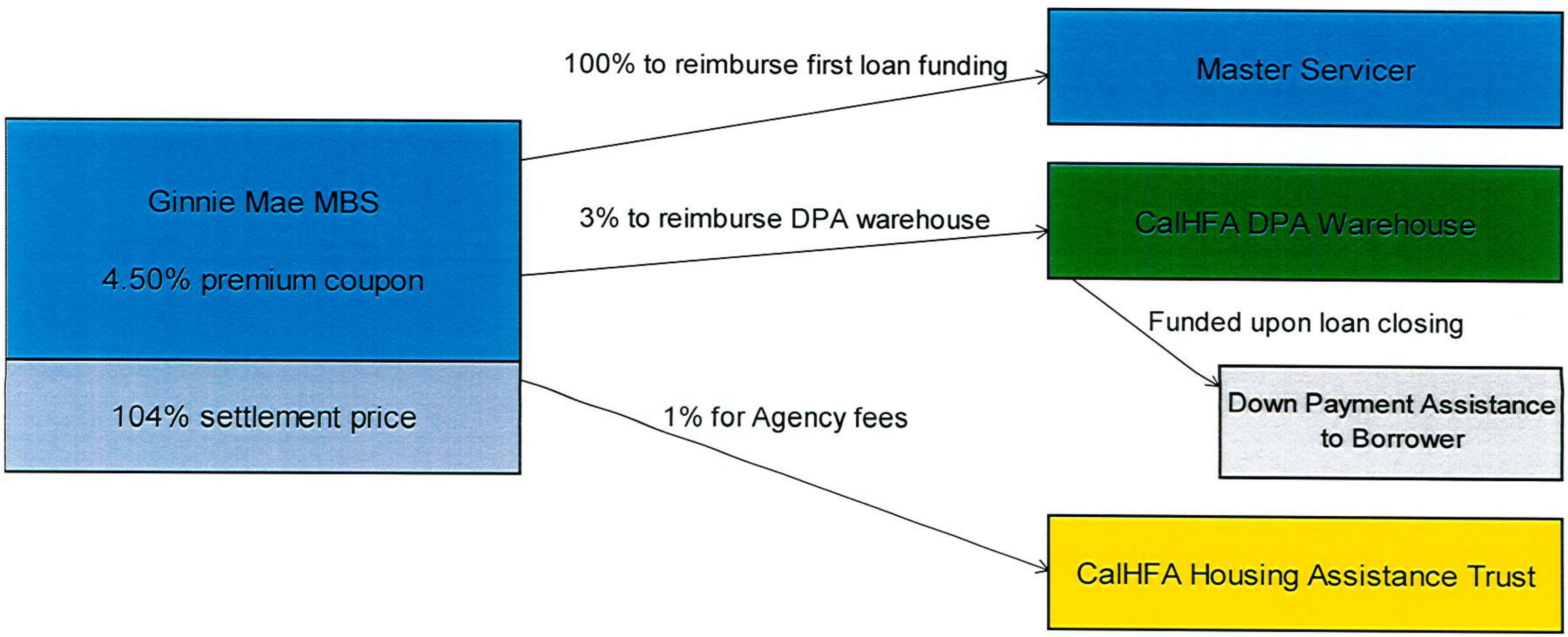
CalHFA will pay a Hedging Facilitator to take the interest rate risks associated with failed delivery.

Proposed risk mitigation strategy

- Failed delivery exposes the lender to interest rate risk because the trade will settle at market value
- The Agency will pay a Hedging Facilitator to take the financial risks associated with TBA lending
- Will have counterparty risk to the Hedging Facilitator
- Master Servicer assumes loan underwriting and servicing risks

Funding of DPA with premium

Upon Sale of MBS



Agenda Item 6 - Update on MF lending program

Program Description

- The new **CalHFA Preservation Loan Program** ("Preservation Loan") provides acquisition/rehabilitation and permanent loan financing of multifamily housing developments including existing CalHFA portfolio projects.
- The Preservation Loan Program will be administered under CalHFA's existing 50/50 FHA Risk Share Agreement with HUD.
- CalHFA has participated in the HUD Risk Share program as a 50/50 risk share lender since it was first established as a pilot program in FY1993/1994.
- The Preservation Loan Program will provide much needed capital for rehabilitation of existing developments and preserve and extend affordability for existing tenants.
- The Preservation Loan Program creates opportunities to upgrade projects with energy efficient appliances and materials.
- For existing CalHFA portfolio loans, projects must have met or exceeded their 15 year tax credit compliance period and are subject to a prepayment fee associated with the loan.
- Available to non- profit, for profit, or public agency sponsors.

Existing approval for HUD Risk Share Program

- Multifamily Lending Authorization
  - On July 4, 1994, the Board adopted Resolution 94-11 amending CalHFA's business plan to include a "pilot" Risk Share Program
  - On May 11, 1995, the Board adopted Resolution 95-19 amending CalHFA's business plan to include the Risk Share Program.

Agenda Item 8 –
Single Family Financing Resolution

Resolution 13-02

- General
  - Authorizing issuance up to 60 days after the first board meeting on or after March 1, 2014
- Debt-management bonds
  - Provides for the deposit and/or pledge of up to $50,000,000 of Agency assets to additionally secure debt-management bonds (no more than 10% of the refunded bonds)
- New money bonds
  - Can create new indentures that are “similar” in forms
  - Restricted to:
    - » MBS (no whole loans)
    - » fixed-rate bonds
    - » no swaps

Agenda Item 9 –
Multifamily Financing Resolution

Resolution 13-03

- General
  - Authorizing issuance up to 60 days after the first board meeting on or after March 1, 2014

- New money bonds
  - For non-conduit transactions, restricted to:
    - » FHA risk-share or comparable credit enhancement
    - » fixed-rate bonds
    - » no swaps

Agenda Item 10 – Application to CDLAC

Resolution 12-04

- Homeownership Program
  - authorizes the Agency to apply for up to $200Mn of private activity bond allocation

- Multifamily Program
  - authorizes the Agency to apply for up to $400Mn of private activity bond allocation

Investment Policy update

Annual Investment Update

- The Board approved the Agency's Investment Policy in January 2012

- A copy of the Agency's annual investment report is included in the Board package

- The policy established the Investment Oversight Committee to approve new investment counterparties and to monitor and review the policy

Investment Oversight Committee Updates

- The Committee approved a new investment vehicle to replace an expiring investment
  - US Bank commercial paper will replace the US Bank Open Repurchase Agreement as an approved investment
  - A copy of the approval document is included in the board handouts

- A low-rated investment was terminated by the Agency
  - WestLB had its underlying ratings withdrawn, which affected one GIC held by the Agency
  - The Agency has redeemed the associated bond series in full, which automatically terminated the GIC

Performance of modified loans

Mods with KYHC assistance perform better