

CalHFA Single Family Lending

Proposed Adjustment to
Compliance Underwriting

March 2014

Recommendation

- Increase the maximum CalHFA DTI guideline from 43% to 45%

Background

- May 2013 Board approved a 43% DTI restriction in anticipation of the Consumer Financial Protection Bureau (CFPB) “Qualified Mortgage” (QM) definition. As a result:
 - 43% DTI requirement reduced CHDAP volume by 57%;
 - Approximately 1,750 borrowers would not have qualified for a CHDAP loan

- October 2014 CFPB final ruling exempted HFAs, FHA, Fannie Mae and Freddie Mac, and Housing Non-Profits from 43% QM restrictions



CalHFA DTI Data

- Average CHDAP DTI for 3+ months prior to 43% restriction was 44.6%

Sample of 320 CHDAP Loans (3/3/13 - 6/14/13)

< 43% - 40%

43 - 45% - 10%

> 45% - 50%

- CHDAP loan default rate since 2009 (with no DTI restriction) is 27 out of 15,785 loans or 0.17%
- Per Genworth MI, no increase in default rate in loans with DTI of 41 – 45%*

*(2010-11 Book of Business)



Benefits

- 5 - 10%* more qualified borrowers will realize homeownership
- Align CalHFA guidelines with our business partners and the exempt marketplace
 - U.S. Bank = 45% max DTI
 - Fannie Mae & Genworth MI = 45% max DTI (manual underwriting)
 - HFAs = 45% max DTI
 - Save borrower money: still 26% cheaper to own in our targeted markets than rent per HUD FY2012 Fair Market Rent average

* Based off of sampling: 3/1/13 – 6/14/13