Organizational and Program Assessment of the California Housing Finance Agency

Overview of the California Housing Finance Agency

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BENJAMIN FRANK LLC
MANAGEMENT CONSULTANTS

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A. Introduction

A. Introduction

The California Housing Finance Agency (CalHFA or Agency) was created in 1975 to provide low cost financing for single family residences and multifamily rental housing for low and moderate income Californians. CalHFA commenced operations during 1976 with financing programs funded through the issuance of tax-exempt bonds which are not subject to federal and state income taxes. Subsequently, CalHFA developed additional affordable housing programs based on other low-cost funding sources, including taxable bonds and State funds. CalHFA's taxable bonds are subject to federal income taxes but are not subject to federal government limitations on issuances of tax-exempt bonds for private activity purposes.

Throughout its history CalHFA's programs focused primarily on providing financing for single family (SF) homeownership and multifamily (MF) rental housing development.

- The SF Homeownership Programs are structured to provide low cost mortgage capital through a network of approved lenders from whom CalHFA purchases previously funded and closed loans secured by single family residences purchased by individual low and moderate income borrowers.
- The MF Rental Housing Programs are typically structured to preserve existing and create new affordable multifamily rental housing by directly funding loans to developers and housing sponsors for the construction, acquisition or rehabilitation of multifamily rental housing developments where some (or all) of the rental units are set aside specifically for eligible low and moderate income tenants.

CalHFA's programs and operations are funded primarily from the California Housing Finance Fund (Housing Finance Fund) which the Agency is solely responsible for administering. The Agency's governing statutes authorize CalHFA to issue bonds, notes and other obligations to fund loans for single family and multifamily housing for low and moderate income Californians. The revenue bonds issued by CalHFA to provide funding for its programs are repaid with revenues generated through borrowers' repayment of mortgage loans and secured by pledges of the mortgage loans and properties being financed. CalHFA also administers the California Housing Loan Insurance Fund (Mortgage Insurance Fund) which provides primary mortgage insurance for the loans in CalHFA's portfolio. The primary mortgage insurance along with secondary mortgage insurance provided through mortgage reinsurance contracts that the Agency enters into provide additional credit support for the bonds that are issued. In some cases CalHFA's revenue bonds are further secured by a general pledge of the revenues and assets of the Housing Finance Fund.

CalHFA's bonds are rated separately from the State and the State is not liable for CalHFA's debts and obligations. The Agency has always maintained investment grade credit ratings for all of its bonds. The investment grade credit ratings have enabled CalHFA to obtain funding from the private capital markets for its affordable housing programs at competitive rates, except at certain points during the 2008/09 financial crisis when the mortgage lending and capital markets were effectively shut down. However, during and following the 2008/09 financial crisis the condition of the mortgage loans and assets pledged as collateral for CalHFA's revenue bonds deteriorated and claims on the Mortgage Insurance Fund surged. As a result of these circumstances and conditions in the mortgage lending and capital markets, the credit ratings on CalHFA's outstanding debt were downgraded from the higher levels that were previously assigned.

Subsequently, when the amount of mortgage insurance claims exceeded the amount of funds available to pay those claims, the Mortgage Insurance Fund became insolvent and discontinued operations. However, CalHFA continues to be responsible for administering the Mortgage Insurance Fund and continues to collect mortgage insurance premiums on outstanding mortgage loans and to pay claims for related mortgage loan losses on a first-in, first-out basis. Also, a portion of the mortgage loan losses are recovered by CalHFA through previously established mortgage reinsurance contracts. Currently, a total of about $46 million in mortgage insurance claims is pending and cannot be paid from the Mortgage Insurance Fund's currently available funds. The activities of the Mortgage Insurance Fund will continue to wind down over a period of years as the remaining first lien mortgages and related mortgage insurance and reinsurance contracts run off. These administrative activities are currently performed by a few CalHFA staff whose costs are charged back to the Mortgage Insurance Fund.

During the last several years the amount of revenue bonds outstanding has been significantly reduced and the performance of the mortgage loans and assets pledged as collateral for the revenue bonds that remain outstanding has improved. Recently, the credit ratings on some of CalHFA's outstanding bonds have been upgraded, although not yet back to the levels that existed prior to the 2008/09 financial crisis in all cases. CalHFA currently has three (3) primary bond credit ratings; a CalHFA issuer credit rating (S&P A- and Moody's A3), a Home Mortgage Revenue Bond credit rating (S&P A- and Moody's A3) and a Multifamily Housing Revenue Bonds III credit rating (S&P AA+ and Moody's A1). During late-2013 and 2014 the ratings of CalHFA's Multifamily Housing Revenue Bonds III were decoupled from CalHFA's issuer credit rating which enabled an upgrade to the credit ratings for these bonds. These were the first bond credit rating upgrades received by CalHFA since the 2008/09 financial crisis. CalHFA's outstanding Housing Finance Fund and Mortgage Insurance Fund liabilities currently include about $3.5 billion in housing bond indebtedness, $1.1 billion in derivative contracts (i.e., interest rate swaps) and $720 million in mortgage insurance contracts.

CalHFA is required to be fiscally self-sufficient and is entirely self-supporting. The Agency receives no tax dollars or direct appropriations from the California State Legislature; instead its funds are continuously appropriated. Within the Housing Finance Fund CalHFA maintains the Agency's Housing Assistance Trust (HAT) which is funded from the difference (or spread) between the fees and interest CalHFA charges borrowers on its mortgage loans and the fees and interest it pays on its bonds. Unencumbered HAT funds are sometimes used to fund other special purpose programs and loans that promote affordable housing for low and moderate income Californians, such as:

- Loans that would not generally produce sufficient revenues to support payments to bondholders, such as loans where principal and interest (if any) is deferred for the term of the loan or until certain events occur (e.g., sale of the property).
- Loans that are not secured
- Loans that do not qualify for tax exempt bond financing.

Unencumbered HAT funds are also used to fund CalHFA's Operating Account which is used to pay the Agency's operating expenses.

A. Introduction

CalHFA's funds are not borrowable by the State and the Agency's expenditures and contracting activities are not subject to supervision or approval of other officers or divisions of the State, including the Department of Finance, the Department of General Services and the California Technology Agency. CalHFA is, however, subject to the civil service and exempt service rules governing the Agency's staff. Additionally, CalHFA utilizes the State Controller's Office and the California State Treasurer's Office for various fiscal and financial support services (e.g., processing of payroll, payment of operating expenses, and investment of surplus cash balances).

Some special State funds administered by CalHFA are subject to annual audit by the Bureau of State Audits, including:

Proposition 46 (2002) and Proposition IC (2006) Funds – Proposition 46 and IC funds earmarked for the California Housing Downpayment Assistance Program (CHDAP), the School Facilities Program, the Extra Credit Teacher Program and the Residential Development Loan Program (RDLP) are administered by CalHFA pursuant to the provisions of Proposition 46 and Proposition IC. About $1.8 billion in funding was provided from bond issuances authorized by Proposition 46 and Proposition IC for these and other programs not administered by CalHFA.

CHDAP Program – The CHDAP Program provides low and moderate income, first-time home buyers with deferred, low-interest, subordinated loans for up to 3 percent of the home purchase price. The CHDAP loan is required to be used by the borrower to fund a portion of their down payment. The CHDAP Program is active and growing. Additional information regarding the CHDAP Program is provided in Subsection 1 of Section F (see page 18).

School Facilities Fees Program – The Schools Facilities Fees Program provides conditional grants to eligible home buyers. Related subordinate liens on the property are usually released after a period of five (5) years. Funding for the School Facilities Program has been exhausted. Currently, there is only minimal activity related to servicing outstanding School Facilities Fees Program loans. The School Facilities Fees Program is expected to end completely by 2018.

Extra Credit Teacher Program – The Extra Credit Teacher Program provides deferred interest subordinated loans to eligible home buyers. The loan is required to be used by the borrower to fund a portion of their down payment. The deferred interest is usually forgiven after a period of three (3) years, but the loans remain outstanding and are sometimes partially or fully repaid. The Extra Credit Teacher Program recently resumed using recycled (repaid) funds, but has only minimal activity (10 new loans during 2014).

RDLP Program – Funding for RDLP loans has been exhausted and there are only four (4) remaining outstanding RDLP loans with an aggregate value of about $10 million. Currently, there is only minimal activity related to servicing outstanding RDLP loans. All of the outstanding RDLP loans are expected to be repaid by 2020. Proceeds from the RDLP loan repayments will be credited to the CHDAP Fund.

Proposition 63 (2004) Mental Health Services Act Funds – Proposition 63 funds earmarked for specified homeless housing components of the Mental Health Services Act (MHSA) are jointly administered by CalHFA and the Department of Health Care Services (DHCS) pursuant to an interagency agreement between the two agencies. Proposition 63 provided about $400 million of permanent financing and capitalized operating cost subsidies for the development, acquisition, construction and rehabilitation of permanent supportive housing, including both rental and shared housing, for persons with serious mental illness and their families who are homeless or at risk of homelessness and who meet other specified MHSA Program requirements. Additional information regarding the MHSA Program is provided in Subsections 10 and 14 of Section F (see pages 23 and 27).

The remainder of this *Overview of the California Housing Finance Agency* provides an overview of CalHFA's governance structure and an historical overview of CalHFA, including overviews of CalHFA organization, staffing, services, budget and expenditures, and the evolution of CalHFA's financing programs immediately prior to and since the 2008/09 financial crisis. This information is organized and presented as follows:

Section	Title
B	CalHFA's Governance Structure
C	CalHFA's Historical and Current Staffing
D	CalHFA's Services and Current Staffing Allocations
E	CalHFA's Single Family Whole Loan Program and Use of Variable Rate Bonds
F	Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis
G	CalHFA's Operating Budget and Current and Prospective Fiscal Circumstances.

Additionally, Appendix A provides a summary of CalHFA's current single family subordinate loan portfolio.

B. CalHFA's Governance Structure

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CalHFA is governed by a 16-member board consisting of thirteen (13) voting members and three (3) ex-officio non-voting members (the Director of CalHFA, the Director of the Department of Finance and the Director of the Governor's Office of Planning and Research). Of the 13 voting members, four (4) are ex-officio (California State Treasurer, Secretary of the Business, Consumer Services and Housing Agency, Director of the Department of Housing and Community Development and Secretary of Veterans Affairs), seven (7) are appointed by the Governor, subject to confirmation by the Senate, and two (2) are appointed by the Legislature (Senate Committee on Rules and Speaker of the Assembly). The statutory responsibilities of the Board are to:

- Enact annual financing resolutions permitting the issuance of bonds
- Authorize contractual obligations exceeding $1 million within a fiscal year
- Approve final commitments on multifamily project loans exceeding $4 million
- Adopt CalHFA's annual operating budget and business plan
- Set the salaries of key exempt positions.

The agency's day-to-day operational authority rests with the Executive Director, subject to supervision by the Board.

During 2012, as part of the Governor's Reorganization Plan (GRP) No. 2 for California government, CalHFA and HCD were transferred from the former Business, Transportation and Housing Agency and grouped together within the newly established Business, Consumer Services and Housing Agency. This restructuring was intended to improve housing program policy development and enable a higher level of programmatic coordination and collaboration between CalHFA and HCD. While CalHFA is now grouped together with HCD within the Business, Consumer Services and Housing Agency, it remains an independent public agency and neither HCD or the Business, Consumer Services and Housing Agency have any administrative authority over either CalHFA or the Housing Finance Fund.

A significant difference between CalHFA and HCD is that CalHFA's programs are generally structured to provide below market rate financing for single family residences and multifamily housing projects by obtaining funds through the private capital markets with the funding repaid and secured by the mortgage loans and properties that are financed. Also, like a private financial institution, CalHFA must earn a sufficient spread between its cost of funds and the revenues it generates on its loans to pay its ongoing operating costs. In contrast, HCD's programs are generally structured as subsidies or grants of federal or State funds that are appropriated through federal and State budget processes or established through ballot propositions for specific purposes, and HCD's operating costs are largely funded through related appropriations for administration of the programs. HCD is nearly entirely dependent on continuing federal and State budget appropriations to fund its operations.

B. CalHFA's Governance Structure

Currently, there is minimal overlap between the housing assistance programs administered by CalHFA and HCD. For example, of 439 CalHFA portfolio projects and 113 MHSA projects overseen by CalHFA and 1,000 multifamily housing properties currently overseen by HCD, only 93 projects (6 percent) received funding from and are overseen by both agencies, and there is no meaningful overlap between the single family housing programs administered by the two agencies. The potential exists to better coordinate the development of housing policy and to better utilize the funding resources available through programs administered by each agency to improve the availability of affordable housing for low and moderate income Californians, particularly in the area of multifamily rental housing. However, the limited level of overlap between the two agencies' programs coupled with structural differences between CalHFA's financing programs and HCD's programs and the existence of separate office facilities, different technology support systems, and agency-specific personnel classification and pay practices limit the types and level of integration, coordination and collaboration that can be realized.

C. CalHFA's Historical and Current Staffing

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As shown by **Exhibit 1** on the next two pages, over the 9-year period from 2001/02 through 2010/11 CalHFA's staffing levels increased by 67 percent (from 191 positions to 320 positions). During this period CalHFA's single family and multifamily program divisions grew by 70 percent (from 99 positions to 168 positions) while the Agency's support service units, such as legal, financing, marketing, accounting, information technology and administration, grew by 65 percent (from 92 positions to 152 positions).

CalHFA's staffing levels peaked during 2010/11. Subsequently, over the next four (4) years, the number of filled positions declined by 17 percent (54 positions). CalHFA currently has a total of 266 filled positions, including 17 temporary help positions. Current staffing levels are comparable to those that existed about eight (8) years ago during 2006/07 when CalHFA lending activity workloads were at peak levels just prior to the 2008/09 financial crisis.

Nearly 75 percent of CalHFA's staffing reductions during the past four (4) years resulted from reduced utilization of temporary help (primarily retired annuitants and student assistants), from 58 positions to 17 positions. During this same period:

- The number of regular positions allocated to CalHFA's support service units increased by 2 percent, from 123 positions to 126 positions
- The number of regular positions allocated to CalHFA's single family program units decreased by 10 percent, from 82 positions to 74 positions
- The number of regular positions allocated to CalHFA's multifamily programs and asset management units decreased by 15 percent, from 58 positions to 49 positions. Nearly all of these reductions occurred in the Multifamily Programs Division where the number of regular positions decreased by 25 percent, from 32 positions to 24 positions.

Overall, since the 2008/09 financial crisis there has been only limited change in the size of CalHFA's workforce which now has 266 filled regular positions compared to 290 filled regular positions during 2008/09.

Filled Positions by Business Unit
2001/02 through 2014/15

	Business Unit	Fiscal Year													
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Dec-14
Support Unit Positions	Support Unit Regular Positions	86.0	95.8	104.5	107.4	108.5	114.5	125.1	129.4	124.0	122.6	122.1	126.6	127.3	126.0
	Support Unit Temporary Help Positions	6.5	5.4	6.5	9.2	9.5	14.4	18.1	17.6	24.5	29.2	23.0	9.8	3.9	7.0
	Total Support Unit Positions	92.5	101.2	111.0	116.6	118.0	128.9	143.2	147.0	148.5	151.8	145.1	136.4	131.2	133.0
Program Unit Positions	Program Unit Regular Positions	87.6	99.8	109.8	114.2	122.7	127.8	132.5	136.9	130.4	140.0	134.2	134.0	130.7	123.0
	Single Family Program Regular Positions	45.2	50.4	60.0	63.3	63.9	66.7	71.2	77.0	71.7	81.8	78.6	82.5	82.5	74.0
	Multifamily Program Regular Positions	42.4	49.4	49.8	50.9	58.8	61.1	61.3	59.9	58.7	58.2	55.6	51.5	48.2	49.0
	Program Unit Temporary Help Positions	11.0	9.4	6.1	13.9	10.9	11.8	11.5	5.6	12.7	28.5	23.2	14.9	10.9	10.0
	Total Program Unit Positions	98.6	109.2	115.9	128.1	133.6	139.6	144.0	142.5	143.1	168.5	157.4	148.9	141.6	133.0
Total Filled Positions, Including Temporary Help		191.1	210.4	226.9	244.7	251.6	268.5	287.2	289.5	291.6	320.3	302.5	285.3	272.8	266.0
Executive Office		3.8	3.8	3.8	4.0	3.5	3.4	4.0	3.9	3.0	2.5	2.9	2.4	3.0	2.0
Legislative Office		1.0	1.0	1.1	2.0	2.0	2.0	2.7	3.0	3.0	3.2	4.0	4.0	4.3	3.0
General Counsel's Office		11.6	12.7	15.6	17.3	18.5	17.5	18.8	20.1	20.0	18.4	17.7	18.7	19.4	19.0
Financing and Risk Management Office		8.6	8.6	9.1	9.9	10.7	11.3	13.2	13.3	13.0	12.0	11.4	10.5	10.5	12.0
Administrative Services	Management and Budgets	1.0	1.0	2.0	2.0	1.9	2.7	2.7	2.0	2.0	1.0	1.0	1.9	3.5	1.0
	Human Resources	10.6	10.4	11.6	12.9	7.2	7.4	9.2	9.3	8.0	9.6	9.2	9.3	7.5	8.0
	Contracts, Business Services and Facilities					5.7	5.9	6.8	6.7	6.4	7.2	8.0	9.0	6.9	10.0
	Total - Administrative Services	11.6	11.4	13.6	14.9	14.8	16.0	18.7	18.0	16.4	17.8	18.2	20.2	17.9	19.0
Fiscal Services	Management	34.6	39.1	39.6	38.1	2.0	2.0	2.0	1.4	1.0	2.0	2.0	1.6	1.0	1.0
	Operations Accounting					3.8	3.6	4.8	5.0	5.0	4.3	4.4	5.0	5.0	5.0
	Single Family Accounting					11.0	12.2	11.4	13.0	13.8	16.0	16.6	17.7	18.8	18.0
	Multifamily Accounting					10.8	10.0	10.6	11.9	11.9	10.8	10.3	9.0	10.0	10.0
	Financial Reporting					4.0	4.0	4.9	5.6	4.8	5.3	6.0	6.0	5.2	5.0
	Bond Administration					5.0	6.0	5.8	6.7	5.9	5.0	5.0	5.0	5.0	5.0
	Fiscal Systems Administration						3.0	2.4	1.6	1.0	1.0	1.0	2.0	2.0	2.0
	Total - Fiscal Services	34.6	39.1	39.6	38.1	36.6	40.8	41.9	45.2	43.4	44.4	45.3	46.3	47.0	46.0

Filled Positions by Business Unit
2001/02 through 2014/15

Business Unit		Fiscal Year													
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Dec-14
Information Technology Services	Management					1.0	1.0	1.0	1.0	0.5			0.9	1.0	1.0
	Applications Development	12.1	15.4	17.2	14.8	5.8	7.7	8.9	7.9	7.7	7.8	6.3	5.3	6.0	6.0
	Other Services					8.6	8.0	8.4	9.0	9.0	9.5	9.5	11.6	10.9	11.0
	Total - Information Technology Services	12.1	15.4	17.2	14.8	15.4	16.7	18.3	17.9	17.2	17.3	15.8	17.8	17.9	18.0
Marketing and Communications	Management and Marketing	2.7	3.8	4.5	6.4	6.0	5.8	5.8	6.0	6.0	5.0	5.0	5.0	5.0	4.0
	Web Support and Digital Media					1.0	1.0	1.7	2.0	2.0	2.0	1.8	1.7	2.3	3.0
	Total - Marketing and Communications	2.7	3.8	4.5	6.4	7.0	6.8	7.5	8.0	8.0	7.0	6.8	6.7	7.3	7.0
Single Family Programs	Program Management					2.3	2.2	2.9	2.7	3.3	3.8	4.7	1.4	1.8	
	Quality Assurance	34.4	38.2	45.0	45.4						3.0	5.0	2.6	2.0	2.0
	Program Development and Lending					35.9	39.4	39.3	40.1	32.5	28.1	24.0	17.4	20.1	23.0
	Subtotal	34.4	38.2	45.0	45.4	38.2	41.6	42.2	42.8	35.8	34.9	33.7	21.4	23.9	25.0
	Loan Servicing and Servicer Administration	10.8	12.2	15.0	17.9	12.7	12.8	13.7	14.4	11.6	14.5	11.4	22.5	18.9	21.5
	Default Management, Loss Mitigation and REO Administration and Disposition					13.0	12.3	15.3	19.8	24.3	32.4	33.5	38.6	39.7	27.5
	Subtotal	10.8	12.2	15.0	17.9	25.7	25.1	29.0	34.2	35.9	46.9	44.9	61.1	58.6	49.0
	Total - Single Family Programs	45.2	50.4	60.0	63.3	63.9	66.7	71.2	77.0	71.7	81.8	78.6	82.5	82.5	74.0
Multifamily Programs	Program Management	5.0	5.0	5.0	5.0	6.0	5.0	5.8	5.3	5.0	5.1	5.5	2.7	2.2	2.0
	Architectural and Construction Services					5.8	6.0	4.0	4.0	4.0	4.0	4.0	3.8	3.0	2.0
	Underwriting	16.9	22.9	23.5	25.4	17.0	16.8	9.5	7.0	6.8	11.9	11.0	10.1	10.0	9.0
	Loan Administration and Disbursements					1.3	1.3	5.8	8.0	7.8	11.0	10.7	9.0	8.0	11.0
	Special Programs (e.g., HELP)					4.5	3.5	9.2	8.8	9.0					
	Asset Management	20.5	21.5	21.3	20.5	24.2	28.5	27.0	26.8	26.1	26.2	24.4	25.9	25.0	25.0
	Total - Multifamily Programs	42.4	49.4	49.8	50.9	58.8	61.1	61.3	59.9	58.7	58.2	55.6	51.5	48.2	49.0
Temporary Help	Support Services	6.5	5.4	6.5	9.2	9.5	14.4	18.1	17.6	24.5	29.2	23.0	9.8	3.9	
	Single Family and Multifamily Programs	11.0	9.4	6.1	13.9	10.9	11.8	11.5	5.6	12.7	28.5	23.2	14.9	10.9	
	Total - Temporary Help	17.5	14.8	12.6	23.1	20.4	26.2	29.6	23.2	37.2	57.7	46.2	24.7	14.8	

C. CalHFA's Historical and Current Staffing

Exhibit 2, on the next two pages, illustrates the organizational structure and reporting relationships of CalHFA staff during January 2015. Page 1 of Exhibit 2 shows the organizational structure and staffing for CalHFA's support units and Page 2 of Exhibit 2 shows the organization structure and staffing for CalHFA's single family and multifamily program units. As shown by Exhibit I-2, many of the CalHFA's authorized executive and senior management positions were vacant, including all of the following:

- Chief Deputy Director (this position was recently filled to oversee the Loan Servicing Section and the Fiscal Services, Administration and Information Technology Divisions)
- Single Family Division Director (Director of Homeownership)
- Lending Section Manager (this position has been staffed on a part-time basis by the Director of Marketing)
- Programs Administrator (formerly Director of MF Programs)
- Deputy Director, Programs – Rental (temporarily staffed by the Multifamily Programs Division Chief)
- Asset Management Division Director
- Director of Administration
- Deputy Comptroller

There are also eight (8) vacant positions within the Single Family Loan Servicing Section and scattered vacancies throughout most of the rest of the organization. In total, there are 39 vacant permanent positions representing about 14 percent of CalHFA's workforce, excluding retired annuitants and temporary help.

Most CalHFA staff are based at CalHFA's Sacramento Headquarters in downtown Sacramento. These staff are located on four (4) separate floors of the Bank of the West building at 500 Capitol Mall, as follows:

Floor	Business Units
3	Single Family Lending and Single Family Portfolio Management Sections
4	Information Technology Division and Business Services Unit
9	Finance Division, Marketing Division and Fiscal Services Division
14	Executive Office, Legislative Office, General Counsel's Office, Multifamily Programs Division, Asset Management Division and most of the Division of Administration (Budgets, Contracts and Human Resources).

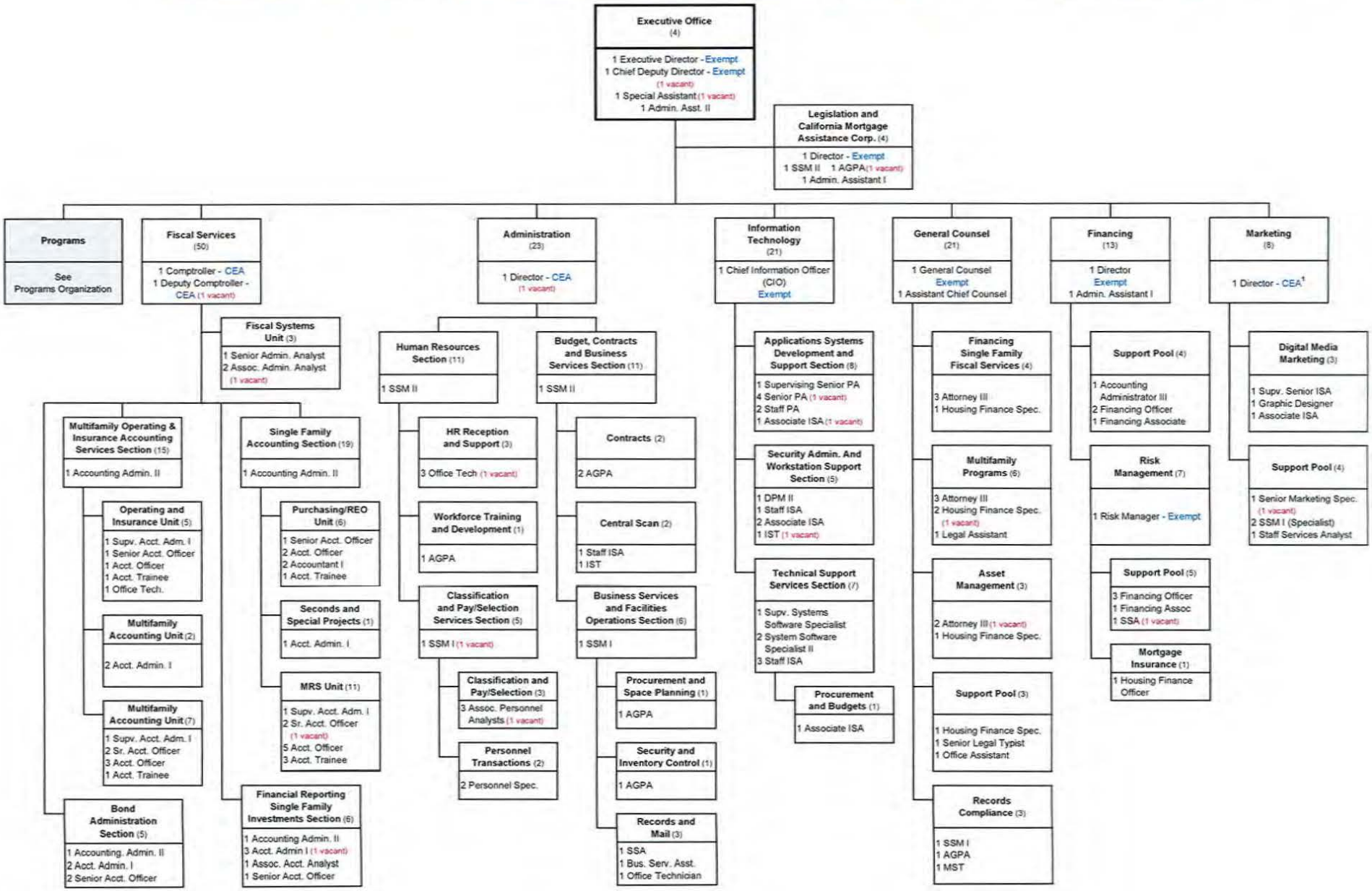
CalHFA is required by statute to maintain its principal offices in the City of Sacramento. The term of the current lease extends to 2023.

About two (2) dozen Single Family Loan Servicing Section staff are currently based at a satellite office located in West Sacramento. However, these staff are currently being relocated to 500 Capitol Mall (9th Floor) and the West Sacramento office is expected to be vacated after that point. The West Sacramento office lease terminates in May 2016 and will not be renewed. CalHFA is attempting to sublease (or re-lease) the space to another tenant before the lease termination.

About 20 Multifamily Programs Division and Asset Management Division staff are based in CalHFA's Southern California office in Culver City. The Culver City office space is underutilized, but the lease does not expire until February 2019. CalHFA is currently seeking a tenant to sublease the space that is no longer needed.

CalHFA Support Organization - November 2014

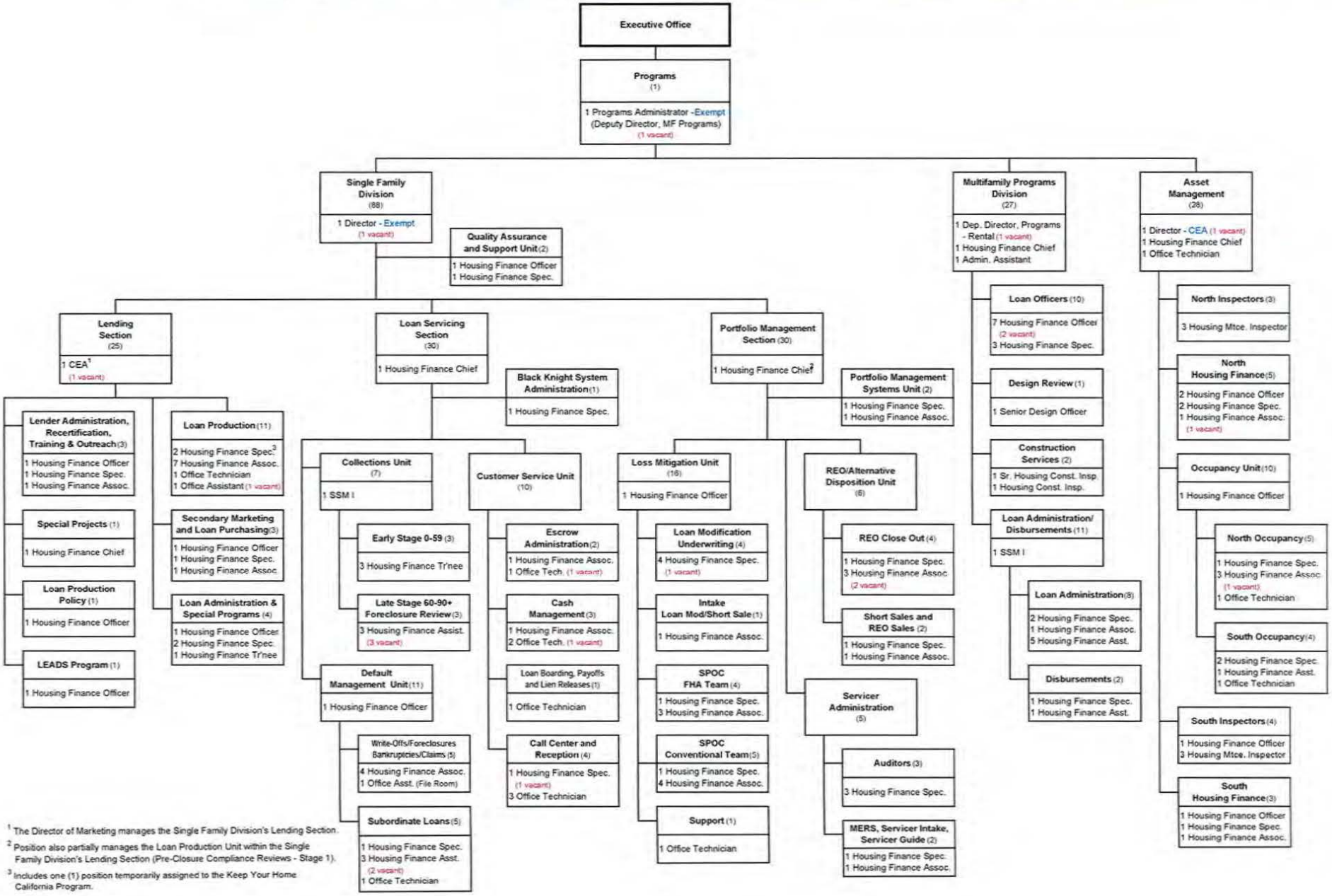
Total Authorized Support Positions, Excluding Retired Annuitants and Temporary Help Positions = 144, Including 18 Vacant Positions



[1] The position also manages the Single Family Division's Lending Section.

CalHFA Programs Organization - November 2014

Total Authorized Program Positions, Excluding Retired Annuitants and Temporary Help Positions = 144, Including 21 Vacant Positions



[1] The Director of Marketing manages the Single Family Division's Lending Section.

[2] Position also partially manages the Loan Production Unit within the Single Family Division's Lending Section (Pre-Closure Compliance Reviews - Stage 1).

[3] Includes one (1) position temporarily assigned to the Keep Your Home California Program.

D. CalHFA's Services and the Allocation of Staff to Provide these Services

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Exhibit 3, on the next page, provides an overview of the major categories of services provided by CalHFA and the allocation of CalHFA's workforce to provide these services (249 filled positions, excluding retired annuitants and temporary help). As shown by Exhibit 3:

- About 30 percent of CalHFA's workforce (75 positions) directly support the Single Family Program, including developing and maintaining a network of private sector lenders that originate single family mortgages on behalf of CalHFA, reviewing loan packages submitted by the lenders for compliance with CalHFA's requirements, and servicing legacy whole loans and subordinate loans.
- About 20 percent of CalHFA's workforce (50 positions) directly supports the Multifamily Lending and Asset Management Programs, including reviewing loan applications and underwriting and processing new loans and overseeing multifamily portfolio property compliance with CalHFA's loan agreement and Regulatory Agreement.

Most of the remaining workforce is allocated among various functionally specialized support service units, including:

Fiscal Services Division – 46 positions, primarily involved in providing single family accounting, multifamily accounting, operations accounting, and investment and bond administration accounting services.

General Counsel's Office – 19 positions, primarily involved in providing legal support services for either the Single Family or Multifamily Programs or, to a lesser extent, various general enterprise level legal support services.

Administrative Services Division – 19 positions, primarily involved in providing budgeting, human resource, contracting and procurement, facilities planning and management and business support services.

Information Technology Division – 18 positions, primarily involved in developing and maintaining enterprise level technology support systems as well as developing and maintaining applications for specific programs or support service units

Financing Division – 12 positions, primarily involved in providing bond financing and associated risk management services.

Marketing Office – 7 positions providing a mix of public affairs, communications, marketing and training services.

Staffing levels in all of the above support service units are currently greater than existed prior to the 2008/09 financial crisis and significantly greater than existed during 2001/02 when CalHFA began an accelerated expansion of its lending programs. For example:

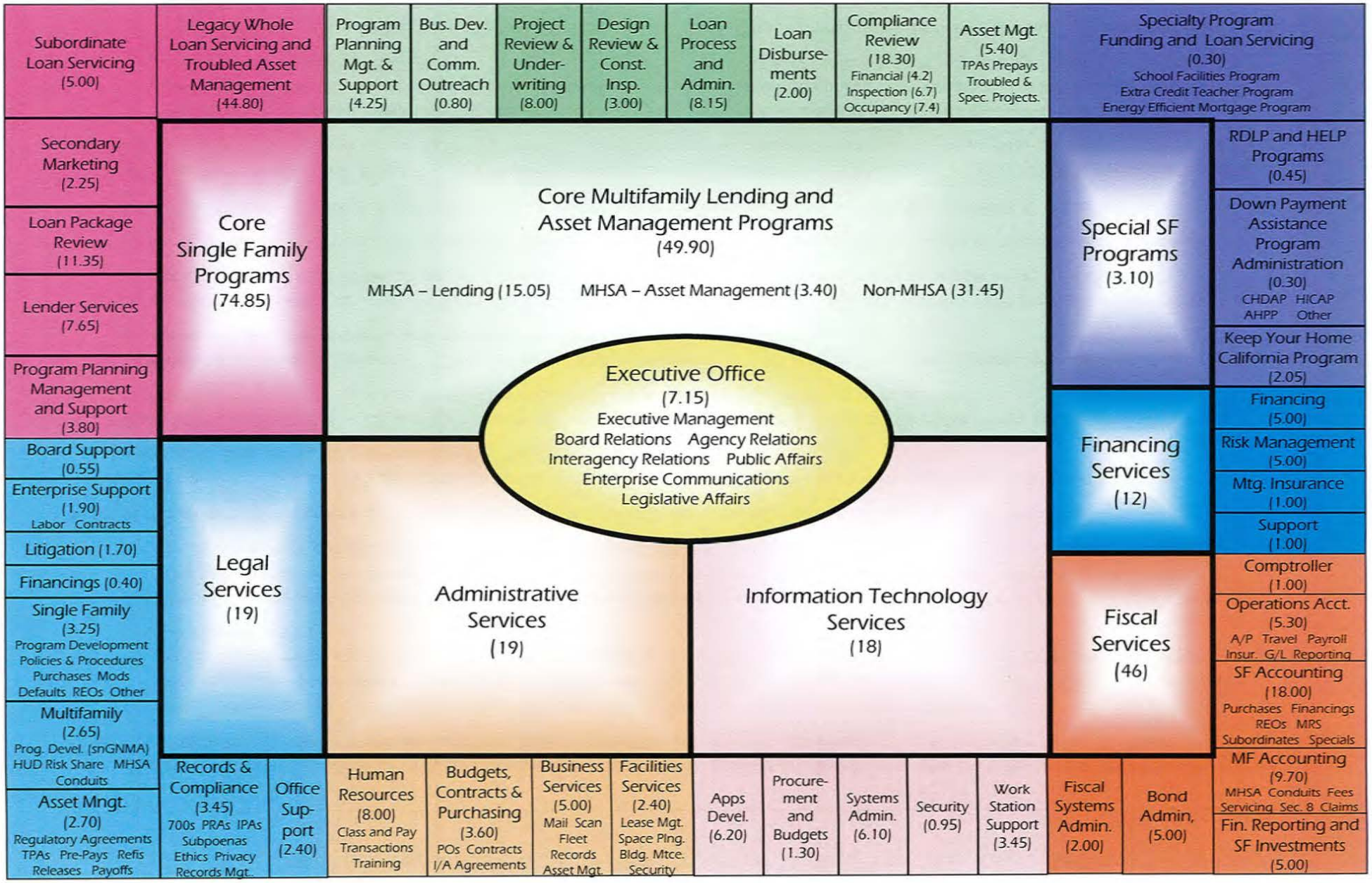
- The Fiscal Services Division currently has 46 filled positions compared to 41 positions during 2006/07 and 35 positions during 2001/02
- The General Counsel's Office currently has 19 filled positions, compared to 18 positions during 2006/07 and 12 positions during 2001/02
- The Information Technology Division currently has 18 filled positions, compared to 17 positions during 2006/07 and 12 positions during 2001/02
- The Administrative Services Division currently has 19 filled positions, compared to 16 positions during 2006/07 and 12 positions during 2001/02.

Exhibit 3

Overview of CalHFA Services and Workforce Allocations

As of November/December 2014

249 Filled Positions, Excluding Retired Annuitants and Temporary Help



E. CalHFA's Single Family Whole Loan Program and Use of Variable Rate Bonds

E. CalHFA's Single Family Whole Loan Program and Use of Variable Rate Bonds

Although profitable for many years, CalHFA suffered significant losses for several years beginning during 2007/08 primarily as a result of high delinquency rates on CalHFA's single family loans and risks and costs associated with high levels of variable rate debt which it issued to fund fixed rate mortgage loans. Problems related to a surge in losses on CalHFA's single family loans and risks and costs associated with the Agency's variable rate debt, and related derivative contracts, were partially resolved during December 2009 when CalHFA received $3.5 billion in Temporary Credit and Liquidity Program credit support for the Agency's variable rate debt through the U.S. Treasury's Troubled Asset Relief Program.

1. Pre-2008/09 Single Family First Lien Loans

Historically, CalHFA offered a standard 30-year fixed rate mortgage and used bond proceeds to purchase the home loans of first time home buyers from lenders that it approved in advance and that followed CalHFA's standards for originating and underwriting the loans. CalHFA utilized both fixed and variable rate bonds for these financings. Traditionally, after CalHFA purchased these loans from the lenders it pledged the loans to the bond indenture portfolio as collateral for the bonds. Only if the loan was not insured by the federal government through the Federal Housing Administration (FHA), Veterans Administration (VA) or United States Department of Agriculture (USDA), or was not sufficiently insured through the Mortgage Insurance Fund or mortgage reinsurance contracts, was CalHFA potentially at risk if a borrower stopped making payments on the loan. However, beginning during 2005 and 2006, to better compete with alternative loan products offered in the marketplace, CalHFA introduced two new primary mortgage products through its established network of private mortgage lenders:

- A 35-year conventional CalHFA loan in which the borrower made interest-only payments for the first five (5) years
- A 40-year conventional CalHFA loan with fixed monthly payments.

Because the 35-year and 40-year loans required lower monthly payments than the 30-year product, borrowers could more easily qualify for these loans. The two new products were especially popular with borrowers and, as of August 2010, they constituted approximately 40 percent of CalHFA's outstanding loan balances. However, during and following the 2008/09 financial crisis, CalHFA experienced increased delinquencies in mortgage payments from its borrowers, especially those with the 35-year and 40-year conventional CalHFA loans where delinquency rates reached levels that were double those for borrowers who obtained 30-year conventional loans during the same time period. These circumstances along with conditions in the mortgage and capital markets impaired CalHFA's capability to complete revenue bond financings and, in 2009, CalHFA suspended its purchases of single family first lien loans and its issuances of single family mortgage revenue bonds (MRBs).

2. CalHFA's Use of Variable Rate Bonds

CalHFA first began using variable rate debt during the mid-1990s because the costs of this type of debt were expected to be lower than the costs of fixed rate debt it had traditionally used to fund loans to borrowers. These lower costs allowed CalHFA to offer loans at more attractive interest rates, thus enabling it to increase its loan volume. As of June 30, 2010, CalHFA's variable rate bond debt totaled $4.5 billion, constituting 61 percent of CalHFA's total bond debt, excluding conduit issuances and escrowed U.S. Treasury supported New Issue Bond Program bonds that presented no credit risk to the Agency. To mitigate various financial risks associated with variable rate bonds, CalHFA entered into interest rate swap agreements, or contractual agreements under which CalHFA and the counterparty to the contract agreed to exchange cash flows over a specified period of time to create a synthetic fixed rate for such debt. However, the interest rate swaps entail risks and costs of their own, including risks and costs associated with complying with collateral posting requirements due to rating downgrades and with terminating or replacing the agreements, and these risks and costs were structured as direct obligations of the Housing Finance Fund, which includes the Housing Assistance Trust (HAT) and the Operating Account used to fund CalHFA's operating costs. Conditions in the capital markets during the 2008/09 financial crisis coupled with reductions in CalHFA's credit ratings during this same period resulted in significant increases in CalHFA's interest rate swap collateral posting requirements which, at one point, reached as much as about $132 million. At that time, potential requirements for additional collateral postings as a result of further downgrades to CalHFA's credit ratings (e.g., to a level below A-) could have jeopardized the Agency's ability to fulfill its collateral posting obligations under its swap contracts and adversely impacted the credit ratings on the Agency's bond indentures along with CalHFA's ability to remain compliant with its bond obligations. However, CalHFA successfully avoided further downgrades to its credit ratings and, over time, the collateral posting requirements for its swaps agreements decreased. CalHFA is currently required to maintain about $50 million in swap collateral postings and these requirements are expected to decrease further as the Agency's credit ratings are upgraded and the swap agreements continue to run off.

3. CalHFA's Use of the U.S. Treasury's Temporary Credit and Liquidity Program (TCLP)

During the 2008/09 financial crisis the above described problems with CalHFA's single family first lien loans, variable rate debt and derivative contracts were temporarily resolved when CalHFA received $3.5 billion in TCLP credit support for the Agency's variable rate debt through the U.S. Treasury's Troubled Asset Relief Program (TARP). The TCLP credit support facility, which was made available to state and local housing finance agencies nationwide, was comprised of Letters of Credit issued by FNMA and Freddie Mac which, for purposes of this program, were explicitly backed by the U.S. Treasury. CalHFA's TCLP credit support facility, which was established during December 2009, provided assurance to bond holders that the Agency's variable rate MRBs would be repaid and remain fully liquid assets, irrespective of the performance of the underlying mortgages and mortgage insurance contracts.

Subsequent to 2009, CalHFA significantly reduced the amount of variable rate MRBs outstanding by (1) refinancing the variable rate bonds with fixed rate bonds, (2) utilizing surplus capital accumulated within the indentures and excess cash from CalHFA's unencumbered operating cash reserves to call down the bonds, (3) securitizing and liquidating mortgage assets, and (4) opening up selected multifamily variable rate bonds for prepayment (see Subsection 8 on page 22). Additionally, the amount of outstanding variable rate MRBs decreased

during the past five years as the underlying mortgage portfolios continued to run off. More recently, CalHFA obtained a $81 million Letter of Credit from a commercial bank (JP Morgan) to replace about one-half of the remaining $155 million of outstanding TCLP support provided for CalHFA's multifamily variable rate MRBs. Currently, in addition to the remaining amount of outstanding TCLP supported variable rate multifamily bonds, about $572 million of TCLP supported variable rate single family MRBs remains outstanding. CalHFA pays the U.S. Treasury a 1.20 percent annual fee on the outstanding TCLP supported bond balance (about $7.8 million per year, funded from the indentures).

The TCLP credit support facility will expire on December 23, 2015, and must be fully replaced before that date to prevent both a potential spike in interest rates and an accelerated redemption on the outstanding variable rate MRBs. A mandatory accelerated redemption of the outstanding variable rate MRBs could exceed CalHFA's capability to fund from currently available excess capital accumulated within the indentures and surplus unencumbered operating cash reserves accumulated in the HAT. Alternative approaches for replacing the TCLP credit support facility include (1) obtaining commercial bank Letters of Credit to replace the TCLP Letters of Credit or (2) refunding the remaining outstanding variable rate bonds with fixed rate bonds or a different type of variable rate bonds that would not require credit support. CalHFA currently expects to obtain needed replacement letters of credit for its outstanding variable rate bonds or, alternatively, to refund outstanding variable rate bonds at least several months in advance of the December 2015 expiration of the TCLP credit support facility.

F. Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis

F. Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis

Since 2008/09 significant changes have occurred in virtually all of CalHFA's other major homeownership and multifamily housing financing and financial assistance programs. Brief summaries of major changes that have occurred during this period involving CalHFA's other financing and financial assistance programs are provided below.

1. California Homeowner Downpayment Assistance Program (CHDAP)

To help low and moderate income Californians qualify for purchases of single family homes, Ballot Propositions 46 and IC, enacted during 2002 and 2006 respectively, provided funds for assisting borrowers in meeting down payment requirements. This program (referred to as California Homebuyer Downpayment Assistance Program or CHDAP) is available for all lenders to offer to prospective first time low and moderate income borrowers. CHDAP can be used to fund up to 3 percent of the purchase price of the property. CalHFA administers the CHDAP Program pursuant to an Interagency Agreement with HCD. CalHFA's responsibilities include reviewing and approving all CHDAP applications, reimbursing lenders for funding the subordinate CHDAP loans and servicing the CHDAP subordinate loan portfolio. CHDAP loans that are paired with non-CalHFA first mortgage loans are commonly referred to as Standalone CHDAPs because CalHFA's involvement in the financing is limited to review, approval and funding of only the subordinate CHDAP loan. CalHFA receives an administrative fee for providing CHDAP services equal to 5 percent of the value of the CHDAP loan (an average of about $375). The interest rate on CHDAP loans is discounted (currently 3.25 percent) and no principal or interest payments are required to be made on the subordinate loan unless the first loan is disturbed (e.g., refinanced or paid off). Currently, there are about 27,500 CHDAP loans outstanding with an aggregate value of $206 million, including about $25 million of accrued interest. The average size of the outstanding CHDAP loans is about $7,500. During and following the 2008/09 financial crisis there was a 95 percent decrease in CHDAP lending activity (to fewer than 400 CHDAP loans during 2008/09 compared to an average of about 8,000 CHDAP loans per year in preceding years). Concurrently, CalHFA began experiencing especially high loss rates on the subordinate CHDAP loans that were originated previously. CHDAP loan repayments, including interest, are credited back to the CHDAP Program Fund.

2. Supplemental Legacy Downpayment Assistance Programs

To further help low and moderate income Californians qualify for purchases of single family homes during the period prior to the 2008/09 financial crisis, CalHFA supplemented the CHDAP Program with additional down payment assistance provided from its own unencumbered HAT funds. Some of these programs were structured to provide down payment assistance for purchases of higher cost homes. In most cases the interest rate on the subordinate down payment assistance loans was discounted and the interest and principal payments were deferred (i.e., not required unless the first loan was disturbed). Among these supplemental down payment assistance programs were included all of the following:

CalHFA Housing Assistance Program (CHAP) – This program was the first CalHFA downpayment assistance program funded from CalHFA agency funds. The assistance was required to be paired with a CalHFA first mortgage loan. About 3,200 CHAP loans are currently outstanding with an aggregate value of about $34.4 million, including about $11.5 million of accrued interest. The average loan size is about $10,700.

High Cost Area Home Purchase Assistance Program (HHPA) – This program was funded from State Home Purchase Assistance (HPA) and CalHFA agency funds. This program provided up to $25,000 in assistance to first-time homebuyers in high cost areas of California. About 2,775 HHPA loans are currently outstanding with an aggregate value of about $59.9 million, including about $20.1 million of accrued interest. The average loan size is about $21,600. HPA funds were also used to fund other CalHFA Programs (e.g., see HPA Program, below).

Homeownership in Revitalization Areas Program (HiRAP) – This program was funded from Proposition 46 bond proceeds. About 290 HiRAP loans are currently outstanding with an aggregate value of about $6.2 million, including about $1.25 million of accrued interest. The average loan size is about $21,400.

Home Purchase Assistance Program (HPA) – This program was funded from HPA funds. About 90 HPA loans are outstanding with an aggregate value of about $3.5 million, including about $1.35 million of accrued interest. The average loan size is about $37,200.

During and following the 2008/09 financial crisis, especially high loss rates were experienced on these loans. All of these programs were suspended prior to or during the 2008/09 financial crisis and none have resumed since that time. Proceeds from repayment of HHPA, CHAP and HiRAP loans are credited back to the HAT Fund. Proceeds from HPA loan repayments are credited back to the HPA fund which CalHFA is currently utilizing for its new ZIP Extra down payment and closing cost assistance program (see Subsection 6 on page 21). A summary of all outstanding CalHFA single family subordinate loans is provided in Appendix A.

3. Single Family First Lien Servicing and Troubled Asset Management Program

The problems in the residential mortgage market that surfaced beginning in 2006/07, and continued through the 2008/09 financial crisis and for several years afterwards, triggered a surge in workload related to servicing CalHFA's first lien mortgage portfolio and performing related troubled asset management services, including following up on delinquent accounts, modifying loan terms, processing foreclosures and bankruptcies, approving short sales, and managing and dispositioning repossessed properties. Prior to the financial crisis, CalHFA staff involved in providing these services were assigned to the Single Family Loan Servicing Section which, at that time, was organized together with the Fiscal Services Division or to the Single Family Lending Section or Mortgage Insurance Fund where they provided various troubled asset management services. Following the 2008/09 financial crisis, the Single Family Loan Servicing Section was transferred to the Single Family Programs Division and significant additional staffing resources, in some cases on a limited term or temporary help basis, were authorized to help the Section keep pace with increased workload demands related to servicing CalHFA's single family portfolio loans. Subsequently, as the Mortgage Insurance Fund's insolvency became increasing apparent, many of its staff were transferred to a newly created Portfolio Management Section, also within the Single Family Programs Division, to provide troubled asset management services. In some cases staff from the Single Family Program's Lending Section, which were increasingly available due to the suspension of CalHFA's single family lending programs, were redirected to help address some of the Loan Servicing Section's and Portfolio Management Section's staffing needs. Also, at various points some Loan Servicing Section and Portfolio Management Section responsibilities and staff were transferred between the two Sections. CalHFA is currently responsible for servicing about 15,000 first lien

loans originated prior to the 2008/09 financial crisis. About one-half of these loans are serviced by outside servicers and the remainder is serviced by the Loan Servicing Section. From time to time CalHFA has taken over the loan servicing responsibilities of an outside servicer. Workload demands among the outside servicers, the Loan Servicing Section and the Portfolio Management Section have diminished as economic conditions have improved, the loans have run off and the remaining loans have become more seasoned. Concurrently, CalHFA reduced its loan servicing and portfolio management staff through attrition, by eliminating limited-term positions as they expired, and limiting the use of overtime, retired annuitants and temporary help. Currently, on an annual basis, about 15 to 20 percent of the outstanding legacy first lien loans are being paid off and it is anticipated that, over the next three (3) years, the total number of loans serviced will decrease by about 40 to 50 percent.

4. Housing Enabled through Local Partnerships Program

The Housing Enabled through Local Partnerships Program (HELP) was developed by CalHFA to provide funding to local government agencies throughout the State to support development of affordable single family homes and multifamily rental housing projects in their jurisdictions. Between the late-1990s and 2008 CalHFA funded about 170 unsecured, 10-year term HELP loans with an aggregate value of about $174 million. The HELP loans were used by the borrower (primarily counties, cities and redevelopment agencies) to help create and maintain affordability of more than 21,000 multifamily homes. The loans were funded by CalHFA from unencumbered HAT funds, the interest rate was discounted, and no payments were required to be made by the borrower until the loan matured. The HELP loans began maturing as the 2008/09 financial crisis was occurring. Since 2008/09, most of these loans have been repaid in full which helped CalHFA to meet its financial obligations during this period. Currently about $40 million in HELP loans remains outstanding (about $45 million including accumulated deferred interest). The average value of the outstanding HELP loans is about $1 million. At least about one-half of these loans are expected to be fully repaid during the next several years. In some cases the borrower has requested an extension of the term of their loan. In these circumstances CalHFA negotiates a mutually agreeable repayment schedule with the requesting jurisdiction. To date, 18 HELP loan modifications have been negotiated.

5. CalPLUS MBS Program with CalHFA Down Payment and Closing Cost Assistance

During April 2013 CalHFA began implementing a new single family first lien financing program that utilizes a secondary market, mortgage backed securities (MBS) financing structure to fund the first lien loan along with the subordinate CalHFA down payment and closing cost assistance loan. As with CalHFA's former single family first lien financing program, home mortgage loans for low and moderate income Californians are underwritten and originated by CalHFA's network of private commercial lenders and, in the case of first time homebuyers, the originating lenders may pair the first lien loans with a subordinate CHDAP loan. Additionally, to further help low and moderate income Californians qualify for purchases of single family homes, this program provides borrowers with financing assistance provided from CalHFA's own unencumbered HAT funds. Like CHDAP, CalHFA's financial assistance is provided through a subordinated loan, referred to as a Zero Interest Program (ZIP) loan, the loan proceeds can be used to fund up to 3 percent of the purchase price of the property and no loan payments are required to be made on the loan unless the first loan is disturbed. However, unlike CHDAP, CalHFA's ZIP loan:

- Is not restricted to use by first time homebuyers
- Can be increased to 3.50 percent of the purchase price of the property if paired with a CalHFA FHA loan
- Is interest free for the term of the loan
- May be used for either down payment or closing cost assistance, including payment of single premium mortgage insurance.

However, while CHDAP can be used with any lender's first lien loan, CalHFA's ZIP loan can only be used in combination with a CalHFA first lien loan (either conventional or FHA). If a lender combines CalHFA's ZIP loan with a CHDAP loan to provide a first time homebuyer with total assistance equal to as much as 6 percent of the purchase price of the property if paired with a CalHFA conventional loan, or 6.50 percent of the purchase price if paired with a CalHFA FHA loan, then the CHDAP loan is subordinated to the ZIP loan. Unlike CalHFA's predecessor homebuyer financing program where CalHFA's purchases of the first lien loans were funded through issuance of CalHFA mortgage revenue bonds (MRBs), under the new MBS Program the first lien loans are temporarily warehoused by U.S. Bank, on behalf of CalHFA, and then sold on the secondary MBS market by a financial intermediary together with first lien mortgages originated by housing finance agencies in other States. Concurrently, the CalHFA ZIP loan is funded by charging the borrower a slightly higher, above-market interest rate on their first lien loan (about 0.5 percent, on average) which enables the MBS to be sold for a premium sufficient to fully fund the CalHFA ZIP loan along with the CalHFA conventional or FHA first lien loan. The first lien loans are serviced by an outside master servicer (currently U.S. Bank) while CalHFA services the subordinate ZIP loans. This new Homeownership Financing Program experienced a relatively slow start-up with only 425 ZIP loans with an aggregate value of about $3.2 million funded through February 28, 2015. The average size of the ZIP loans is about $7,500. As the ZIP loans are repaid the funds become available to support other CalHFA financial assistance programs.

6. ZIP Extra Down Payment and Closing Cost Assistance Program

During August 2014 CalHFA introduced a supplemental financial assistance program to further assist low and moderate income Californians with their single family home purchases. This program, which is funded from CalHFA's restricted HPA Fund, provides up to $6,500 which can be used for either down payment or closing cost assistance, including payment of single premium mortgage insurance. Like CalHFA's ZIP loan, this assistance is provided through a subordinate loan, it is not restricted to first time homebuyers, no interest in charged, and payments are deferred for the life of the first lien loan. However, unlike the ZIP Program, funding for the ZIP Extra loan is not replenished through the financing process. Also, the ZIP Extra loan can only be paired with a CalHFA conventional loan due to statutory restrictions that prevent pairing with an FHA loan. If both ZIP and ZIP Extra financial assistance are provided, then the assistance is combined in a single subordinate loan. If the combined subordinate ZIP and ZIP Extra subordinate loan is paired with a CHDAP loan, then the CHDAP loan is subordinated to the ZIP and ZIP Extra loan. As of February 28, 2015, 139 ZIP Extra loans with an aggregate value of about $903,500 had been funded, excluding the value of paired ZIP loans. The average size of the ZIP Extra loans is about $6,500 (plus another $7,500 if paired with a ZIP loan, which is usually the case). Since introduction of the ZIP Extra Program CalHFA has begun to see a significant increase in loan reservation activity levels (e.g., to an average of about 50 reservations per week during January and February 2015). As the ZIP Extra loans are repaid, the funds will be credited back to the HPA Fund.

F. Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis

7. Multifamily Project Financing Program

CalHFA's Multifamily Preservation Loan Program was interrupted during 2008/09 financial crisis as a result of a combination of circumstances, including (1) a lack of demand for multifamily project financings, (2) conditions in the mortgage and capital markets, and (3) CalHFA's impaired revenue bond credit ratings. Multifamily Preservation Loan Program financing activity recommenced in mid-2012, but few new financings have been completed since that time due to continuing challenges in the mortgage and capital markets and other circumstances. During 2012/13 CalHFA completed seven (7) existing portfolio property recapitalization financings with an aggregate value of about $70 million. All of these financings utilized the U.S. Treasury's New Issue Bond Program (NIBP) through which the U.S. Treasury directly purchased CalFHA's bonds at discounted interest rates tied to U.S. Treasury interest rates. The NIBP was a temporary program established by the U.S. Treasury during 2009 to provide financing for HFA multifamily projects. The NIBP Program expired during December 2012. Subsequently, during late-2013 and early-2014 three (3) other multifamily project financings with an aggregate value of about $32 million were completed, including one (1) portfolio project recapitalization financing and two (2) non-portfolio preservation financings, with financing for all of the projects provided by issuing CalHFA revenue bonds. CalHFA is not currently able to provide construction financing for new multifamily housing projects, but can provide (1) permanent financing for newly constructed projects and (2) financing for acquisition/rehabilitation projects. Acquisition/rehabilitation loans are eligible for interest only payment for a period extending up to 24 months at a 3.55 percent interest rate (as of January 20, 2015). Permanent loans are fully amortized for a period extending up to 35 years at a 4.65 percent interest rate (as of January 20, 2015). For Preservation Loan Program financings, CalHFA currently charges borrowers a $5,000 one-time, non-refundable application fee and an issuance fee payable at closing equal to 1 percent of the principal amount of the loan. Additionally, CalHFA includes in the borrower's loan interest rate a spread above CalHFA bond financing costs usually ranging between 0.50 percent and 1.00 percent. Since March 2014 no Multifamily Preservation Loan Program financings have been completed for either newly constructed or existing portfolio projects. A summary of all currently pending multifamily project financings is provided in Appendix B (*Multifamily Project Financing Pipeline Summary*).

8. Multifamily Portfolio Loan Prepayment Program

Historically CalHFA prohibited prepayment of multifamily loans. However, following the 2008/09 financial crisis CalHFA developed and implemented a Multifamily Portfolio Loan Prepayment Program to help deleverage the Housing Finance Fund's balance sheet, reduce outstanding liabilities and financial risks, and limit the risk of further credit rating downgrades on CalHFA's bonds. This program enables certain owners of CalHFA portfolio multifamily projects to pay off their CalHFA mortgage loan prior to maturity. To be eligible for prepayment the loan must have matured for 15 or more years and the Federal Low Income Housing Tax Credit Period must be satisfied. Also, the Project Owner is required to be in compliance with all conditions set forth in all existing CalHFA loan documents and all loans for the project directly or indirectly financed by CalHFA are required to be prepaid at the same time. Initially, there was some interest among existing portfolio project owners and sponsors in prepaying their CalHFA loans. Over a period of several years, from mid-2011 through mid-2014, 50 multifamily loan prepayments with an aggregate value of $246 million were completed. Subsequently, CalHFA modified the Multifamily Portfolio Loan Prepayment Program to require recapitalization of the project through CalHFA utilizing the Agency's Conduit or Preservation Loan Programs. While recapitalization can provide additional economic benefits to the project owner or sponsor (e.g.,

additional tax credits), other requirements that impact the project's economics, such as extending the period of affordability to 55 years and paying a CalHFA yield maintenance fee which reduces potential interest cost savings, appear to have dampened the level of interest among project owners and sponsors in prepaying their CalHFA loans. From July 2014 through February 2015 CalHFA completed eight (8) portfolio project prepayments with an aggregate value of $24 million.

9. Multifamily Project Conduit Issuer Program

The Conduit Issuer Program is structured to for-profit and non-profit multifamily developers with access to tax exempt bonds for the financing of family and senior affordable housing projects. During the past several years, from 2011/12 through 2013/14, CalHFA completed only 11 Conduit Issuer Program financings with an aggregate value of $166 million. To increase participation in the Conduit Issuer Program, CalHFA recently formalized its application and reduced the fees that it charges to participating borrowers. CalHFA currently charges borrowers a $5,000 one-time, non-refundable application fee and an issuance fee payable at closing equal to $15,000 or 0.20 percent of the principal amount of the bonds issued, whichever is greater. Additionally, CalHFA charges borrowers a $6,500 administrative fee payable annually for the term of the financing. At this time it is unclear whether the formalized application and reduced fees will generate a higher level of participation in the Conduit Issuer Program.

10. Proposition 63 Mental Health Services Act Program

As multifamily project financing workload diminished during and following the 2008/09 financial crisis, CalHFA staff began becoming increasingly involved in reviewing, approving and funding applications for MHSA project financings. Typically, multiple funding sources are utilized for these projects, CalHFA is not the primary lender, funding sources other than MHSA funding account for most of the funding provided, and the MHSA loan is subordinated to all of the other financings supporting the project.

The MHSA Program Provides Both Permanent Capital Cost Financing and Capitalized Operating Cost Subsidies – Of the total $400 million in funding provided for the MHSA Program, about $270 million was allocated for capital cost financing and about $130 million was allocated for operating cost subsidies. For 2015, a maximum of $131,593 per unit in allowable capital costs can be financed through the MHSA Program. Additionally, each unit financed with a permanent MHSA loan may be eligible for a Capitalized Operating Subsidy Reserve (COSR), up to a maximum of $131,593. The COSR is a property-specific reserve, held by CalHFA in a reserve account, which can be utilized to subsidize allowable operating costs of the MHSA units that were financed, including MHSA permanent loan servicing fees (see below). About 70 percent of projects have a COSR, which is sized to allow operating subsidies for up to 20 years based on a review of the difference between the projected income and operating expenses for the MHSA COSR subsidized units in the first-year operating budget and assuming annual income and expense escalation factors for subsequent years. The allowable capital cost and COSR ceilings automatically increase by 4 percent per year. The interest rate on MHSA permanent loans is fixed at 3 percent simple interest. The term of MHSA permanent loans can extend from 20 to as long as 57 years.

F. Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis

Generally, MHSA Projects are Especially Labor Intensive for CalHFA Staff Given the Relatively Small Number of Housing Units and Amount of Financing Involved – As shown by **Table 1**, below, from inception of the MHSA Program during 2008/09 through 2013/14, 151 MHSA financings with an aggregate value of about $207 million were completed (equivalent to an average of about $1.4 million per project). Recently, another eight (8) financings with an aggregate value of $10.7 million were completed. Currently, another 29 applications with an aggregate permanent loan value of about $39.1 million are pending or in progress, equivalent to an average of $1.35 million per project. About 85 percent of the currently pending financings involve projects having about 20 or fewer homeless housing units and total financial assistance costs of less than $2 million, including both permanent financing and COSR reserve funds. Currently, most CalHFA Multifamily Programs staff spend most of their time processing MHSA financing applications and providing other MHSA-related support services. In total, about 15 full-time-equivalent Multifamily Programs staff, including a mix of Housing Finance Officers, Housing Finance Specialists, Housing Finance Associates, Housing Finance Assistants and Housing Construction Inspectors is utilized to process MHSA financing applications and provide other directly-related MHSA Program support services. Additionally, the Fiscal Services Division and other CalHFA support units provide various MHSA Program support services, including funding and accounting for MHSA permanent loans and COSR reserves.

Table 1. Summary of Completed and Expected Mental Health Services Act Financings

	Fiscal Year	Number of Projects	Total Amount of Financings	Amount of Financing per Project
Completed Financings	2008/09	6	$4,149,000	$691,500
	2009/10	27	41,373,768	1,532,362
	2010/11	38	58,091,284	1,528,718
	2011/12	29	39,051,675	1,346,609
	2012/13	33	41,509,561	1,257,865
	2013/14	18	23,068,678	1,281,593
	2014/15 (July 2014 through January 2015)	8	10,678,350	1,334,794
	Total Completed Through January 2015	159	$217,922,316	$1,370,581
Expected Financings	2014/15 (February 2015 through June 2015)	14	$19,051,004	$1,360,786
	Subsequent Years	15	20,097,102	1,339,807
	Total Expected Future Financings	29	$39,148,106	$1,349,935
Total MHSA Project Financings[1]		**188**	**$257,070,422**	**$1,367,396**

[1] An additional $13 million of funding is potentially available that could fund about 10 additional MHSA projects. However, some jurisdictions may not utilize all of their allocated funding.

F. Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis

CalHFA Subsidizes Costs of Administering the MHSA Program – CalHFA was paid a $4 million fee to administer the MHSA Program when the program was first initiated (1 percent of $400 million). CalHFA is also paid an administrative fee equal to 1 percent of the principal amount of each completed MHSA permanent loan (an average of about $14,000 per financing). To date, CalHFA has completed an average of about 26 financings per year which collectively generated an average of about $364,000 per year in administrative fees, or a total of about $2.2 million over the past six (6) years. These fees, which total about $6.2 million, compare to about $1.7 million per year in salary and benefit costs that CalHFA has incurred over the past six (6) years for about 15 full-time-equivalent Multifamily Programs staff utilized to support the MHSA Program, or a total of about $10 million in staff salary and benefit costs over the past six (6) years. To support the MHSA Program, CalHFA also incurs significant additional indirect and overhead costs (e.g., costs for occupancy, supplies, and fiscal, human resources, legal and information technology support staff and services). CalHFA will continue to incur significant costs to administer the MHSA over the next several years as the remaining applications for financial assistance are processed.

CalHFA's Support for the MHSA Program Over the Past Six Years Has Resulted in Development of More Than 2,000 Homeless Housing Units – During the past six (6) years about 160 MHSA financings have been completed. These financings funded development of about 2,300 homeless housing units. Additionally, over the next several years development of about 400 additional homeless housing units will be funded as currently pending applications for financial assistance are processed. These accomplishments surpass the goals that were established for the MSHA Program.

Available funding for the MHSA Program is now nearly fully encumbered. It is anticipated that most (or all) of the currently pending projects, including about 40 projects that are under construction or pending final cost certification and another 25 to 30 projects that have pending applications, will be completed during the next three (3) years, thereby concluding the program, unless it is extended. Table 2, below, provides a summary of currently pending MHSA project financings.

Table 2. MHSA Project Financing Pipeline Summary

Stage of Financing	Number of Active MHSA Projects	Amount of CalHFA Financing (Millions of Dollars)	Number of MHSA Units
Pre-Application	3	$1.5	3
Application	23	18.7	162
Initial Commitment	5	5.2	49
Final Commitment	6	11.7	114
Construction	15	24.2	200
Cost-Certification	26	43.6	397
Totals	78	$104.9	925

F. Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis

11. Multifamily Asset Management Program

CalHFA's Asset Management Division oversees multifamily portfolio projects previously financed by CalHFA through the Housing Assistance Trust (HAT), HUD Risk Share, and Rental Housing Construction Program (RHCP). Each project is monitored with respect to its compliance with the financial, physical and occupancy requirements contained in loan documents and Regulatory Agreement for the project. Additionally, as required by the Internal Revenue Code, if the project was financed through the sale of tax-exempt revenue bonds, the Asset Management Division monitors the project throughout the Qualified Project Period to ensure compliance with applicable provisions of State and Federal law. The Asset Management Division also responds to tenant complaints and resolves problems with troubled projects, including problems involving project governance, management, and financial condition. In the case of projects with loans that have been paid off and were not recapitalized through CalHFA, the Asset Management Division is no longer required to monitor compliance with the project's loan agreement but, in many cases, continues to be responsible for overseeing and monitoring compliance with the project's regulatory agreement. Since the 2008/09 financial crisis there has been a small decrease in the number of projects overseen and monitored and a small shift in the composition of these projects as some outstanding CalHFA loans have been paid off. *Excluding MHSA projects*, the Asset Management Division currently oversees and monitors 439 CalHFA multifamily projects, including:

- 320 Multifamily Portfolio, Non-Section 8 projects, including:
  - 272 projects with outstanding CalHFA loans
  - 48 projects without outstanding CalHFA loans (the loans were repaid)
- 97 Section 8 projects, including:
  - 52 projects that have outstanding CalHFA loans
  - 45 projects without outstanding CalHFA loans, either because the CalHFA loans were repaid or financing for the project was provided separate from CalHFA
- 22 Conduit Issuer Projects.

For Section 8 projects without an outstanding CalHFA loan, the Asset Management Division's oversight and monitoring responsibilities are limited to requirements related to serving as the U.S. Department of Housing and Urban Development's Traditional Contract Administrator (see Subsection 12, below).

F. Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis

12. Section 8 Multifamily Housing Program

CalHFA serves as a Traditional Contract Administrator on behalf of the U.S. Department of Housing and Urban Development (HUD) for specified Section 8 multifamily housing projects in California. CalHFA's responsibilities as Traditional Contract Administrator for these projects include processing monthly subsidy payments, completing annual property inspections, and approving annual rent increases. Some of these projects have an outstanding CalHFA loan which requires additional oversight of the project and monitoring for compliance with CalHFA's loan agreement and Regulatory Agreement for the project (see page I-14). The size of the Section 8 portfolio has been gradually diminishing, by about 25 percent, cumulatively, over the last 10 years (from 135 projects to 97 projects). CalHFA is currently paid about $1.5 million per year for providing Section 8 project Traditional Contract Administrator services. The amount of fees paid to CalHFA will diminish as the monitoring period for the various projects expires and fewer projects remain subject to continued monitoring.

13. HUD 811 Demonstration Program

In mid-2014 CalHFA agreed, in collaboration with HCD, the California Tax Credit Allocation Commission, and the California Department of Health Care Services, to administer a $12 million, 5-year HUD and U.S. Department of Health and Human Services sponsored Demonstration Project to provide rent subsidies for eligible individuals (e.g., non-elderly disabled persons residing in residential care facilities). The scope of CalHFA's responsibilities for the HUD 811 Demonstration Program is similar to its responsibilities as Traditional Contract Administrator for Section 8 projects. To date, three (3) multifamily housing projects, involving about $1.5 million in rent subsidies, have been approved for participation in the HUD 811 Demonstration Program. Recently, CalHFA agreed to administer a second $12 million, 5-year Demonstration Program. It is anticipated that, over the next several years, a total of about 50 multifamily housing projects will begin participation in the two (2) HUD 811 Demonstration Programs and that both of the Demonstration Programs will be extended after their initial 5-year demonstration periods, subject to future funding appropriations. While 50 new multifamily housing projects will increase workload in various areas throughout the Asset Management Division, some offsetting workload reductions are expected to occur during this same period as legacy multifamily portfolio loans continue to run off and as Section 8 project monitoring periods expire. For each HUD 811 Demonstration Program, CalHFA will be paid about $900,000 in administrative fees over the program's 5-year term, or a total of about $1.8 million in fees for both Demonstration Programs through 2019.

F. Evolution of Other CalHFA Programs Immediately Prior to and Since the 2008/09 Financial Crisis

14. Mental Health Services Act Portfolio Management Program

Recently, significant new workload has emerged as 113 MHSA projects transitioned from an application, financing or project development status to an asset management status. Growing workload associated with the accumulation of MHSA projects has begun to create some conflicting program and workforce management demands. About 70 additional MHSA projects are expected to transition to asset management status during the next 2 to 3 years. Therefore, if the MHSA Program is not extended, CalHFA will be responsible for overseeing a portfolio of about 180 MHSA properties for the next several decades. For MHSA housing projects that have completed permanent loan financings through CalHFA, CalHFA's responsibilities include:

- On-boarding new properties
- Training property managers regarding MHSA Program submission requirements, forms and procedures
- Reviewing annual project audits and budgets
- Determining annual rent and utility adjustments
- Reconciling COSR reimbursement requests with end-of-year audited expenditures and determining COSR reimbursements (about 70 percent of MHSA projects have a COSR)
- Performing annual physical site inspections
- Responding to tenant complaints
- Processing changes of ownership or management.

CalHFA receives an annual Servicing Fee equal to 0.42 percent of the original principal balance of the permanent MHSA loan. Assuming about $270 million in MHSA project permanent financings are eventually completed, CalHFA's aggregate fee for providing related asset management services will initially be about $1.13 million per year, or about $6,300 per property per year. This is sufficient to fund about 117 hours of paid staff time per property per year, assuming an average cost per position of about $112,000 per year for salaries and benefits (see Exhibit I-4 on page I-27), or fewer than 117 hours of staff time per property per year if indirect and overhead costs are included. This compares to about 64 hours of paid staff time per property per year utilized currently by Multifamily Asset Management staff to oversee and monitor the existing portfolio of 113 MHSA properties (3.4 full-time-equivalent positions x 2,080 paid hours per position per year / 113 properties). The annual Servicing Fees paid to CalHFA appear to be sufficient to fully fund the Agency's ongoing MHSA-related costs, including Multifamily Asset Management staff salaries and benefits and CalHFA indirect and overhead cost allocations. However, additional positions could be needed to keep pace with current and emerging MHSA-related workload demands.

G. CalHFA's Operating Budget and Current and Prospective Fiscal Circumstances

G. CalHFA's Operating Budget and Current and Prospective Fiscal Circumstances

Exhibit 4, on the next page, provides an overview of CalHFA's 2014/15 operating budget. As shown by Exhibit 4, CalHFA's expenditures are dominated by its personnel services costs (primarily salaries and benefits) which account for more than 70 percent of total budgeted expenditures.

CalHFA's 2014/15 operating budget assumes about 286 filled regular (permanent and limited-term) positions, a significant increase from CalHFA's actual number of filled regular positions during 2013/14 (263) and the number of regular positions currently filled (249, as of December 2014). If CalHFA's budgeted expenditures are adjusted to more closely reflect actual 2014/15 staffing levels, then total 2014/15 expenditures would be about $39 million rather than nearly $43 million. CalHFA currently estimates that actual 2014/15 expenditures will be about $38 million, reflecting actual staffing levels at the Agency together with lower than budgeted expenditures on legal and information technology consulting service contracts.

CalHFA is currently doing little new single family and multifamily lending, but has about $150 million in unencumbered HAT cash reserves, excluding Swap collateral postings. However, because the Agency incurs nearly $40 million per year in personal services and other operating costs, a perception surfaced that available unencumbered operating cash reserves will be depleted within a period of two to three years unless, before this occurs, either much higher levels of lending activity are achieved or operating costs are significantly reduced (or both). Based on this same perception, in conjunction with an extended period of limited lending activity, concerns surfaced that CalHFA's business partners could become increasingly less inclined to utilize CalHFA financing as it becomes increasingly apparent that the Agency may be unable to continue in business. These circumstances would, in turn, make it more difficult for CalHFA to sustain operations after this point which would effectively reduce the amount of time available to significantly increase lending activity or reduce operating costs before necessitating significant curtailments of agency operations.

However, during the past several years CalHFA's fiscal circumstances changed. As a result of improvements in the macro-economic environment and real estate markets, the condition of CalHFA's indentures has improved resulting in higher bond ratings and reduced needs to support the indentures with contributions from CalHFA's unencumbered HAT cash reserves. Also, the collateral posting requirements for CalHFA's swaps have decreased. Updated analyses of current and prospective operating cash flows indicate that Housing Assistance Trust cash liquidity problems are unlikely to surface within the next 8 to 10 years. This Base Case analysis (see **Exhibit 5,** following Exhibit 4) assumes minimal growth in new loan production, no change in current operating expenditures, elevated loan losses, and low indenture administrative fees. The Base Case analysis also assumes an additional $35 million indenture deposit from CalHFA's unencumbered HAT reserves although, following Moody's recent upgrade of CalHFA's home mortgage revenue bonds, it is now anticipated that this additional deposit will probably not be needed. If somewhat higher new loan production levels, somewhat lower loan losses, and increased indenture administrative fees are assumed, then CalHFA operating account cash liquidity problems would be unlikely to surface within the next 10 to 12 years. These circumstances provide an opportunity to take a more deliberative approach to developing and implementing new, sustainable single family and multifamily lending programs to replace CalHFA's legacy lending programs.

Exhibit 4

2014/15 Operations Budget Summary

	Business Unit	Number of Positions			2014/15 Budgeted Expenditures				2014/15 Budgeted Cost Per Budgeted Position	
		2012/13 Filled	Dec-14 Filled	2014/15 Budgeted	Salaries, Wages and Benefits: Regular Staff	Salaries, Wages and Benefits: Temporary Help	Other Operating Expenses	Total	Regular Staff Salaries, Wages and Benefits	Total Costs
Support Units	Executive/Legislative/Board	6.4	5.0	8.0	$1,234,144	$0	$339,000	$1,573,144	$154,268	$196,643
	Fiscal Services	46.3	46.0	50.0	4,578,332	45,000	578,100	5,201,432	91,567	104,029
	General Counsel	18.7	19.0	20.0	2,599,492	0	693,000	3,292,492	129,975	164,625
	Information Technology	17.8	18.0	21.0	2,453,478	49,000	768,500	3,270,978	116,832	155,761
	Administration	20.2	19.0	23.0	1,993,758	45,000	264,000	2,302,758	86,685	100,120
	Financing	10.5	12.0	11.5	1,550,401	0	38,500	1,588,901	134,817	138,165
	Marketing	6.7	7.0	8.0	875,165	15,000	611,000	1,501,165	109,396	187,646
	Total Support Units	126.6	126.0	141.5	$15,284,770	$154,000	$3,292,100	$18,730,870	$108,020	$132,374
Program Units	Single Family Servicing	35.1	49.0	30.0	$2,451,967	$265,000	$1,219,000	$3,935,967	$81,732	$131,199
	Single Family Portfolio Management	27.0		36.0	3,441,938	0	60,500	3,502,438	95,609	97,290
	Single Family Lending	17.8	23.0	22.0	2,374,665	60,000	344,000	2,778,665	107,939	126,303
	Single Family Quality Assurance	2.6	2.0	2.0	232,818	15,000	14,000	261,818	116,409	130,909
	Total Single Family Units	82.5	74.0	90.0	$8,501,388	$340,000	$1,637,500	$10,478,888	$401,690	$485,701
	Multifamily Programs	24.3	24.0	26.0	$3,020,509	$45,000	$108,000	$3,173,509	$116,173	$122,058
	Asset Management	27.2	25.0	28.0	3,142,158	0	267,500	3,409,658	112,220	121,774
	Total Multifamily Units	51.5	49.0	54.0	$6,162,667	$45,000	$375,500	$6,583,167	$114,123	$121,911
	Total Program Units	134.0	123.0	144.0	$14,664,055	$385,000	$2,013,000	$17,062,055	$101,834	$118,486
Total Operating Budget Before Mortgage Insurance and Indirect Costs		**260.6**	**249.0**	**285.5**	**$29,948,825**	**$539,000**	**$5,305,100**	**$35,792,925**	**$104,900**	**$125,369**
Plus: Mortgage Insurance Reimbursements		2.0		1.0	$129,726	$0	$166,241	$295,967	$129,726	$295,967
Plus: Indirect Costs							6,078,916	6,078,916		
Total Baseline Budget		**262.6**	**249.0**	**286.5**	**$30,078,551**	**$539,000**	**$11,550,257**	**$42,167,808**	**$104,986**	**$147,183**
Less: Keep Your Home California								($496,000)		
Plus: Strategic Project Contracts								1,219,000		
Total Adjusted Baseline Budget		**262.6**	**249.0**	**286.5**	**$30,078,551**	**$539,000**	**$11,550,257**	**$42,890,808**	**$104,986**	**$149,706**

Base Case Housing Assistance Trust Cash Flow and Liquidity Projection
Cash Flow Statement
Current Loan Production / Current Operating Expenses / Elevated Loan Losses / $35 Million Bond Indenture Deposit / Low Indenture Administrative Fees

Sources and Uses of Funds (Millions of Dollars)		Fiscal Year										
		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Interest on Cash		$0.7	$0.6	$0.6	$0.7	$0.7	$0.7	$0.7	$0.7	$0.6	$0.6	$0.5
Legacy MBS Payments	SF MBS Principal	$1.9	$1.7	$1.5	$1.3	$1.2	$1.1	$0.9	$0.8	$0.7	$0.7	$0.6
	SF MBS Interest	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2
	MF MBS Principal	1.5	1.4	1.5	1.6	1.7	1.8	1.8	1.8	1.9	2.0	2.1
	MF MBS Interest	1.8	1.7	1.7	1.6	1.5	1.4	1.4	1.3	1.2	1.1	1.0
Legacy Loan Payments	SF Whole Loan Principal @ 24 Percent Loss Rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	SF Whole Loan Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	SF Subordinate Principal @ 75 Percent Loss Rate	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
	SF Subordinate Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	MF Whole Loan Principal @ 0 Percent Loss Rate	8.1	8.7	9.4	10.0	10.3	9.8	7.8	4.9	4.1	4.1	3.6
	MF Whole Loan Interest	7.9	7.2	6.5	5.7	4.9	4.0	3.2	2.6	2.2	1.9	1.7
	HELP Loan Principal @ 72 Percent Loss Rate	7.4	2.5	1.3	0.3	0.0	0.0	-	-	-	-	-
	HELP Loan Interest	2.4	0.8	0.4	0.1	0.0	0.0	-	-	-	-	-
	Habitat for Humanity Principal	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Legacy Fees and Other Income	MF Conduit Bond Administrative Fees	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6
	MF Whole Loan Bond Administrative Fees	1.4	1.3	1.1	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.5
	SF MBS Bond Administrative Fees	1.7	1.5	1.3	1.1	1.0	0.9	0.7	0.6	0.6	0.5	0.4
	SF Whole Loan Bond Administrative Fees	1.6	1.4	1.2	1.1	0.9	0.8	0.7	0.6	0.5	0.5	0.4
	MHSA Servicing Fees	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5
	MF Asset Management Fees (Section 8, 811, TBRA)	1.3	1.5	1.4	1.4	1.3	1.2	1.2	1.1	1.0	1.0	0.9
	SF Servicing Income	3.9	3.4	3.0	2.6	2.2	1.9	1.7	1.5	1.3	1.1	1.0
Total Legacy Cash Inflow		$44.7	$36.5	$33.5	$30.8	$28.8	$26.5	$22.8	$18.3	$16.5	$15.6	$14.2
Additional Legacy Indenture Administrative Fees		$0.0	$7.0	$7.0	$7.0	$7.0	$7.0	$7.0	$7.0	$7.0	$7.0	$7.0
New Loan Production Income and Fees	MF Permanent Loan Income	$0.1	$0.1	$0.1	$0.2	$0.3	$0.3	$0.4	$0.4	$0.5	$0.6	$0.6
	MF Acquistion/Rehabilitation Income	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	MF Conduit Financing Fees	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.7	0.8	0.9	0.9
	MHSA Program Fees	0.1	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	SF First Loan (TBA) Income	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	SF CHDAP Loan Fees	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
	SF ZIP Loan Fees	0.0	0.1	0.3	0.5	0.6	0.7	0.8	0.9	0.9	1.0	1.0
	SF Extra Credit Teacher Program (ECTP) Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	SF Mortgage Credit Certificate (MCC) Fees	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	Total New Loan Production income and Fees	$3.2	$3.5	$3.9	$4.2	$4.4	$4.6	$4.8	$5.0	$5.1	$5.3	$5.5
Total Legacy and New Production Cash Inflow		$47.9	$47.1	$44.4	$42.0	$40.2	$38.0	$34.6	$30.3	$28.6	$27.9	$26.7
Cash Outflows	Operating Expenses	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0
	Bond Issuance Costs	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
	Indenture Deposits *(Possibly Not Needed)*	35.0	-	-	-	-	-	-	-	-	-	-
	Foreclosure Fees	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total Cash Outflow		$74.2	$39.2	$39.2	$39.1	$39.1	$39.1	$39.1	$39.0	$39.0	$39.0	$39.0
Net Cash Flow		($26.3)	$7.9	$5.2	$2.9	$1.1	($1.0)	($4.5)	($8.7)	($10.4)	($11.1)	($12.3)

Source - CalHFA Finance Division

Base Case Housing Assistance Trust Cash Flow and Liquidity Projection
Partial Balance Sheet
Current New Loan Production / Current Operating Expenses / Elevated Loan Losses / $35 Million Bond Indenture Deposit / Low Indenture Administrative Fees

Cash Generating Assets (Millions of Dollars)		Fiscal Year End										
		06/30/14	06/30/15	06/30/16	06/30/17	06/30/18	06/30/19	06/30/20	06/30/21	06/30/22	06/30/23	06/30/24
Cash	SMIF and Commercial Bank Deposits	$135.5	$118.9	$126.8	$132.0	$134.9	$136.0	$135.0	$130.5	$121.8	$111.3	$100.2
	Cash Receivables	9.7	-	-	-	-	-	-	-	-	-	-
MBS	Single Family MBS	15.9	14.1	12.4	10.9	9.5	8.3	7.3	6.3	5.5	4.8	4.1
	Multifamily MBS	37.6	36.1	34.7	33.2	31.6	29.9	28.2	26.3	24.5	22.7	20.7
Loans	SF Whole Loans @ 24 Percent Loss Rate	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1
	SFSubordinate Loans @ 75 Percent Loss Rate	8.2	6.2	4.6	3.5	2.6	2.0	1.5	1.1	0.8	0.6	0.5
	MF Whole Loans @ 0 Percent Loss Rate	105.3	97.2	88.5	79.1	69.0	58.7	48.9	41.1	36.3	32.1	28.0
	HELP Loans @ 72 Percent Loss Rate	41.3	13.3	4.2	0.8	0.1	0.0	-	-	-	-	-
	SF Habitat for Humanity Loans	4.5	4.4	4.2	4.0	3.8	3.6	3.4	3.3	3.1	2.9	2.7
Total Assets		$358.6	$290.4	$275.6	$263.7	$251.9	$238.8	$224.5	$208.8	$192.1	$174.5	$156.3
Total Liquid Assets (Cash and MBS Only)		$198.7	$169.0	$173.8	$176.0	$176.0	$174.3	$170.4	$163.2	$151.8	$138.8	$125.0
Swap Collateral		50.0	47.0	44.0	41.0	38.0	35.0	32.0	30.0	30.0	30.0	30.0
Collateral Reserve		50.0	47.0	44.0	41.0	38.0	35.0	32.0	29.0	26.0	23.0	20.0
Loan Warehousing		30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
12-Month Operating Expense Reserve		38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0
Available Liquid Assets		$30.7	$7.0	$17.8	$26.0	$32.0	$36.3	$38.4	$36.2	$27.8	$17.8	$7.0

Source - CalHFA Finance Division

Base Case Housing Assistance Trust Cash Flow and Liquidity Projection
Loan Production Contribution Assumptions
Current New Loan Production / Current Operating Expenses / Elevated Loan Losses / $35 Million Bond Indenture Deposit / Low Indenture Administrative Fees

New Production Activity Assumptions (Millions of Dollars)	Loan Originated in Fiscal Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
MF Permanent Financings	$12.0	$12.0	$12.0	$12.0	$12.0	$12.0	$12.0	$12.0	$12.0	$12.0	$12.0
MF Acquistion/Rehabilitation Financings	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
MF Conduit Financings	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
MHSA Program	10.0	10.0	10.0	10.0	-	-	-	-	-	-	-
SF First Loans (TBA)	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
SF CHDAP Loans	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
SF ZIP Loans	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
SF Extra Credit Teacher Program (ECTP) Loans (Count)	20	20	20	20	20	20	20	20	20	20	20
SF Mortgage Credit Certificate (MCC) Program (Count)	900	900	900	900	900	900	900	900	900	900	900

New Production Present Value Income Assumptions (Millions of Dollars)	Loan Originated in Fiscal Year										
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
MF Permanent Financings	$0.8	$0.8	$0.8	$0.8	$0.8	$0.8	$0.8	$0.8	$0.8	$0.8	$0.8
MF Acquistion/Rehabilitation Financings	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
MF Conduit Financings	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
MHSA Program	0.1	0.1	0.1	0.1	-	-	-	-	-	-	-
SF First Loans (TBA)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
SF CHDAP Loans	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SF ZIP Loans	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
SF Extra Credit Teacher Program (ECTP) Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SF Mortgage Credit Certificate (MCC) Program	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Present Value Income	$4.6	$4.6	$4.6	$4.6	$4.5	$4.5	$4.5	$4.5	$4.5	$4.5	$4.5
Less: Operating Expenses	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0	$38.0
Less: Bond Issuance Costs	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Excess/(Deficient) Income Generated	($34.3)	($34.3)	($34.3)	($34.3)	($34.4)	($34.4)	($34.4)	($34.4)	($34.4)	($34.4)	($34.4)

Source - CalHFA Finance Division

Appendix A
Current Single Family Subordinate Loan Portfolio

Exhibit A-1

Current CalHFA Single Family Subordinate Loan Portfolio

Program/(Loan Type)[1]		Funding Source	Number of Outstanding Loans	Principal Balance (03/31/15)	Accrued Interest (12/31/14)	Total Balance	Average Loan Value
California Homebuyer Downpayment Assistance Program (CHDAP)		Prop. 46 and Prop. IC	27,535	$180,363,572	$25,128,410	$205,491,982	$7,463
Predecessor DPA Programs	California Housing Assistance Program (CHAP)	CalHFA Agency Funds	3,116	22,235,197	11,429,520	33,664,717	10,804
	High Cost Area Home Purchase Assistance Program (HHPA/HiCAP)	HPA and CalHFA Agency Funds	2,678	38,353,062	20,120,731	58,473,793	21,835
	Homeownership in Revitalization Areas Program (HIRAP)	Proposition 46	285	4,845,625	1,237,448	6,083,073	21,344
	Home Purchase Assistance Program (HPA)	State Funds	89	1,995,276	1,358,296	3,353,572	37,681
	Silent Second Loan Program (SSLP)	CalHFA Agency Funds	73	355,641	158,325	513,966	7,041
	Matching Payment Program (MDP)	CalHFA Agency Funds	16	28,759	19,131	47,890	2,993
Current DPA Programs	Zero Interest Program (ZIP)	CalHFA Agency Funds	611	4,539,548	-	4,539,548	7,430
	ZIP Extra Program	HPA Funds	264	1,716,000	-	1,716,000	6,500
Other Programs	Extra Credit Teacher Program (THPA)	Prop. 46, HPA and CalHFA Agency Funds	931	11,310,316	1,159,910	12,470,226	13,394
	Oakland Teacher Program (OHPA)	Proposition 46	3	30,000	16,209	46,209	15,403
Totals			35,601	$265,772,996	$60,627,979	$326,400,975	$9,168

[1] Does not include School Facilities Fee Program or Energy Efficient Mortgage Program grants. School Facilities Fee Program subordinate liens are usually released after a period of five (5) years. Funding for this program has been exhausted and all (or nearly all) of the currently outstanding grants are expected to be released by 2018. The Energy Efficient Mortgage Program is a new program and, to date, only a few conditional Energy Efficient Mortgage Program grants have been made.