

Fiscal Year 2015-16 Proposed Business Plan and Operating Budget

May 14, 2015

Presentation Outline

- **Update on status of FY 2014-15 Business Plan**
 - Goals
 - Status of key action items

 - **Presentation of Proposed FY 2015-16 Proposed Business Plan**
 - Goals
 - Key Action Items

 - **Overview of resource and liquidity projections**
 - Legacy Resources vs. New Era Resources

 - **Presentation of the FY 2015-16 Proposed Operating Budget**
 - General Overview
 - Comparative Analysis
 - Board Budget
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Fiscal Year 2014-15 Business Plan

Goal #1

- Stabilize the Agency's balance sheet. Improve operational efficiency

Goal #2

- Reinvigorate lending activities. Grow the Agency's balance sheet

Goal #3

- Reorganize State-level housing policy and resources

Goal #4

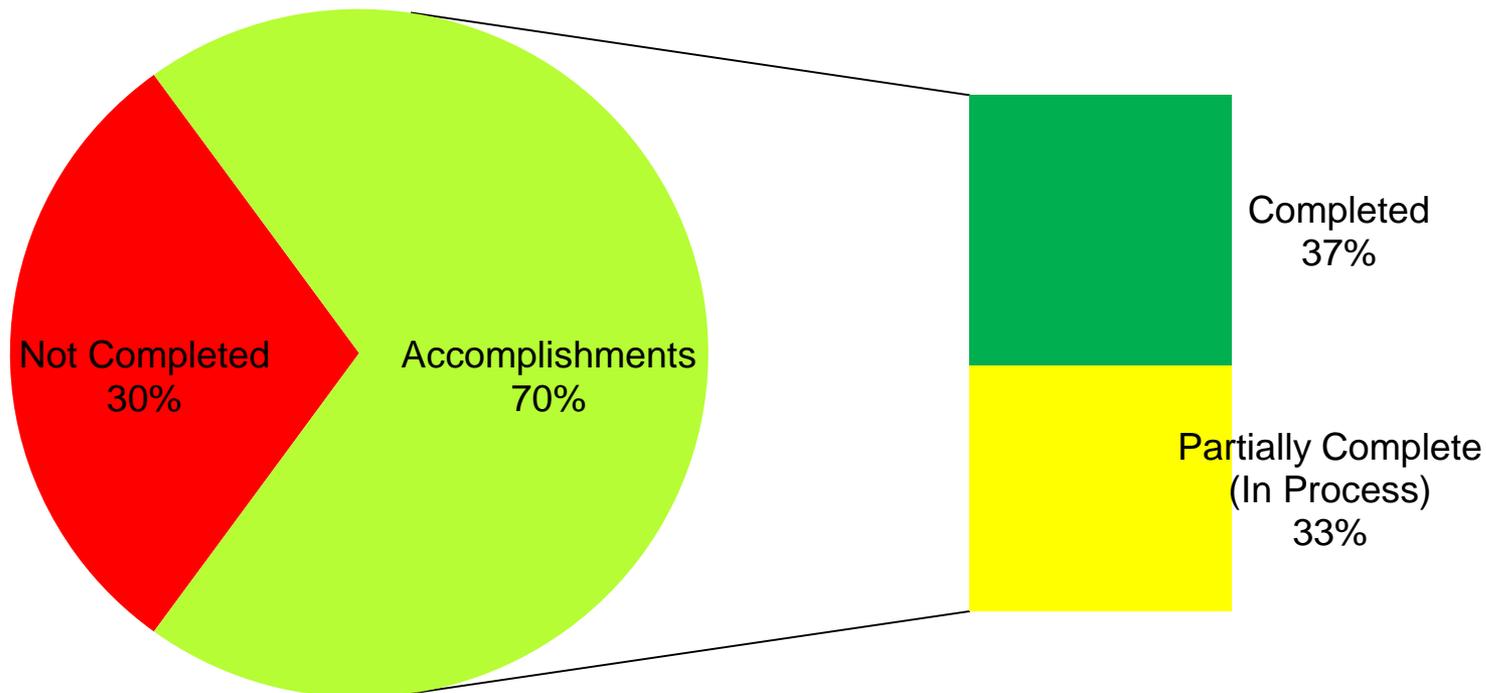
- Pursue new sources of capital and revenue and investigate new business opportunities

Goal #5

- KYHC: Help prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and/or significant negative equity

Update - FY 2014-15 Business Plan

Action Item Status



Stabilize the Agency's balance sheet. Improve operational efficiency

- Increase stability of capital structure and liquidity position
 - Reduce VRDO balance by \$450M **COMPLETED**
 - Reduce swap notional balance by \$200M **COMPLETED**
- Reduce balance sheet risk by increasing loss mitigation efforts in the single family portfolio
 - Aggressively collect and apply loss mitigation strategies **COMPLETED**
 - Audit outside servicers, update servicers guide and streamline loss mitigation process **COMPLETED**
 - Review loan portfolio to increase participation in KYHC **COMPLETED**

Stabilize the Agency's balance sheet. Improve operational efficiency

- Reorganize and increase operational efficiencies and infrastructure to better position the Agency for future business opportunities
 - Train managers and supervisors to effect succession planning **NOT COMPLETE**
 - Develop master plan for a flexible workforce **PARTIALLY COMPLETE**
 - Divisions will assess work flow to increase organization efficiency
PARTIALLY COMPLETE
- Develop long-term strategies to monitor and mitigate enterprise risk
 - Review Quality Assurance, Risk Management and Internal Controls/Compliance and develop plan to address each **PARTIALLY COMPLETE**
- Agency-wide IT integration of data collection, flow and reporting
NOT COMPLETE

Reinvigorate lending activities. Grow the Agency's balance sheet

- Generate income via multifamily lending opportunities
 - Preservation and recapitalization of portfolio projects **PARTIALLY COMPLETE**
 - Obtain approval of 35/17 HUD Risk Share program **COMPLETED**
 - Implement HUD Risk Share program **PARTIALLY COMPLETE**
 - Continue Multifamily Conduit Issuer Program **COMPLETED**
- Generate income via single family lending opportunities
 - Revenue targets for 1st mortgages and DPA loans **COMPLETED**
 - Introduce new conventional product, EEM and expand lending to non-first time homebuyers **COMPLETED**
 - Develop program for using recycled HPA (Home Purchase Assistance) funds **COMPLETED**

Reinvigorate lending activities. Grow the Agency's balance sheet

- Generate income via multifamily asset management opportunities
 - Administer HCD's Tenant Based Rental Assistance (TBRA) program
PARTIALLY COMPLETE
 - Administer HUD 811 Subsidy program with HCD, DHCS and TCAC.
PARTIALLY COMPLETE
- Generate savings in single family loan servicing operations
 - Assess existing servicing platform to maximize efficiency
PARTIALLY COMPLETE
 - Determine economic feasibility of CalHFA servicing as master loan servicer
COMPLETE

Reorganize State-level housing policy and resources

- Collaboration with HCD on “live” projects
 - Streamline multifamily asset management functions and responsibilities
PARTIALLY COMPLETE
 - Governor Reorganization Plan (GRP) **COMPLETE**
 - Finalize affordable housing cost study **COMPLETE**
- Coordinate HCD and CalHFA functions to meet California’s affordable housing needs
 - Finalize executive organizational charts with roles and responsibilities
PARTIALLY COMPLETE
 - Organizational review **PARTIALLY COMPLETE**
 - Provide technical assistance to legislature regarding dedicated source for affordable housing **PARTIALLY COMPLETE**

Help prevent avoidable foreclosures by providing assistance to eligible homeowners

- Maximize use of KYHC program funds
 - Collaborate with public and private entities to maximize leverage of foreclosure prevention resources **PARTIALLY COMPLETE**
 - Measure program outcomes **COMPLETE**
 - Submit needed program changes to US Treasury **COMPLETE**
 - Aggressively market programs **PARTIALLY COMPLETE**
 - Monitor success of program participants **COMPLETE**

Update - FY 2014-15 Business Plan

Questions?

Fiscal Year 2015-16 Proposed Business Plan

Goal #1

- Reinvigorate lending activities
- Grow the Agency's balance sheet

Goal #2

- Align lending activities with State housing policy and increase operational efficiency

Goal #3

- KYHC: Help prevent avoidable foreclosures by providing assistance to eligible homeowners

Reinvigorate lending activities. Grow the Agency's balance sheet

- Generate income via single family lending opportunities
- Key Action Items:
 - \$600 million in 1st mortgage loans
 - \$75 million in down payment assistance loans (DPA)
 - Generate \$6 million in new revenues and \$10.6 million in long term assets.
 - Add mortgage broker business.
 - Complete new lender manual
 - Issue 1,300 Mortgage Credit Certificates

Reinvigorate lending activities. Grow the Agency's balance sheet

- Generate income via multifamily lending opportunities
- Key Action Items:
 - \$100 million in multifamily lending
 - \$100 million in multifamily conduit financings
 - Generate \$1.2 million in new revenue and \$5.3 million in long term assets
 - Increase internal capacity via training and program development
 - Create portfolio preservation strategy
 - Adopt policies for Earned Surplus Funds

Reinvigorate lending activities. Grow the Agency's balance sheet

- Strengthen capital reserves and improve liquidity position
- Key Action Items:
 - Eliminate Temporary Credit Liquidity Program (TCLP)
 - Develop internal capacity to hedge MBS sales to increase fee income
 - Refine tools to manage allocation of capital and risk.

Align lending activities with State housing policy and increase operational efficiency

- Complete organizational assessment and implement recommendations that increase operational efficiencies
 - Key Action Items:
 - Consolidate all Sacramento staff at 500 Capitol Mall
 - Eliminate unneeded vacant positions
 - Finalize organizational structure and functional roles
 - Continue to refine budget and business plan development
-

Align lending activities with State housing policy and increase operational efficiency

- Develop long-term strategies to monitor and mitigate enterprise risks
- Key Action Items:
 - Formalize Strategies to integrate enterprise risk management efforts into the CalHFA business process
 - Develop a plan to review and improve quality assurance, risk management and internal controls across the Agency

Align lending activities with State housing policy and increase operational efficiency

- Agency-wide IT integration of data collection, flow and reporting
 - Key Action Items:
 - Develop IT governance structure and strategic plan that aligns IT priorities with business plan goals
 - Develop records management policy and update records retention schedule
 - Identify and train IT liaisons in all business units
 - Expand and improve electronic loan file submission process
-

Align lending activities with State housing policy and increase operational efficiency

- Enhance program delivery of affordable housing through continued collaboration with HCD and other partners
- Key Action Items:
 - In collaboration with DHCS and HCD determine next phase of MHSAs program
 - Assess goals, performance measures and viability of HOME TBRA and HUD 811 programs
 - Continue to explore integrated gap financing efforts amongst State affordable housing entities
 - Collaborate with HCD and CalVet to expand veteran housing opportunities

Align lending activities with State housing policy and increase operational efficiency

- Maximize use of KYHC program funds
- Key Action Items:
 - Submit program changes as needed to US Treasury to increase eligibility
 - Increase marketing efforts
 - Collaborate with other private and public entities to maximize and leverage potential foreclosure prevention resources.
 - Measure program outcomes and assess barriers to eligibility

FY 2015-16 Business Plan

Questions?

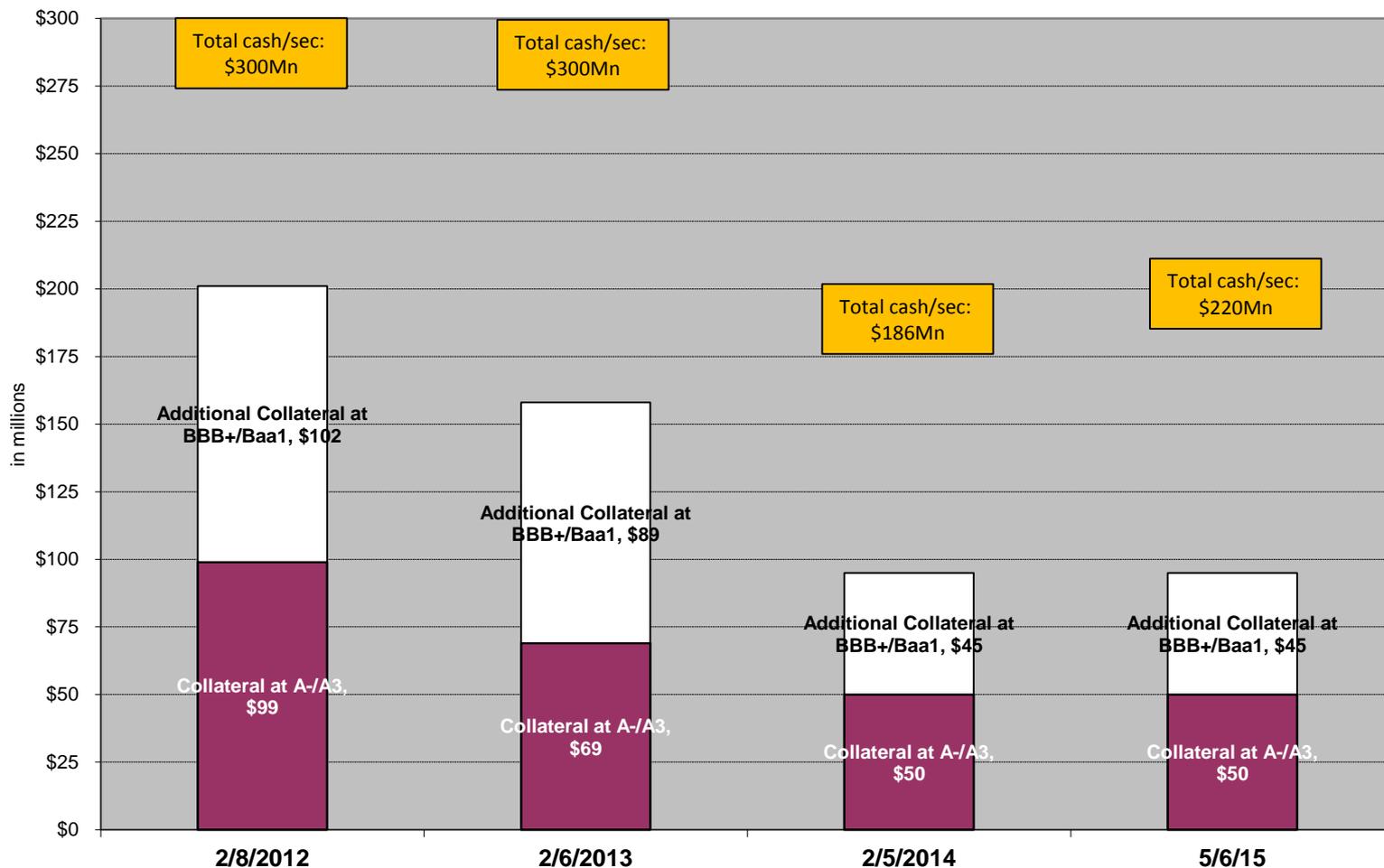
Overview of Agency Resource and Liquidity Projections

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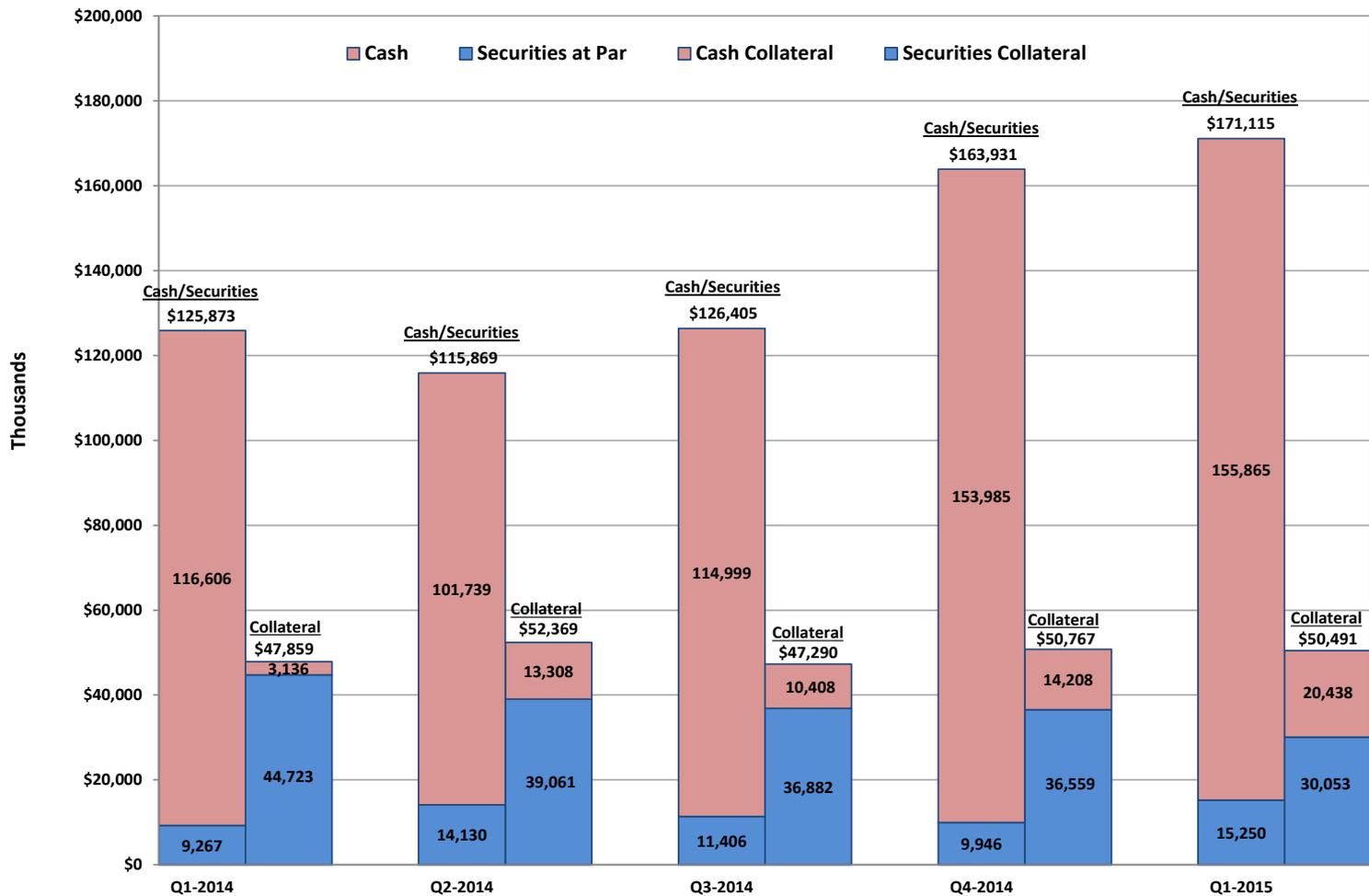
Sources and Uses of unencumbered cash from 4/1/14 to 3/31/15

<u>Cash and Securities 4/1/14:</u>	\$ 186.4		
<i>(in millions)</i>	<i>4/1/14 to 6/30/14 (3 months)</i>	<i>7/1/14 to 3/31/15 (9 months)</i>	<i>Total 12 months</i>
<u>Cash Inflows</u>			
Mortgage/securities repayments and prepayments	\$ 0.18	\$ 52.04	
Release of Earthquake Insurance	\$ 0.39	\$ 1.37	
Income from Loan Servicing	\$ 0.50	\$ 2.00	
Fee Income	\$ 3.72	\$ 19.68	
Interest on mortgage/securities/cash	\$ 3.38	\$ 11.88	
DPA		\$ 3.46	
Transfer in: closed indentures, interfund etc.	\$ 2.08	\$ 0.50	
	<u>\$ 10.25</u>	<u>\$ 90.93</u>	
<u>Cash Outflows</u>			
Payroll expense (salaries and benefits)	\$ (6.69)	\$ (20.61)	
Rent (Agency) expense	\$ (0.65)	\$ (2.27)	
Prorata expense & General Expenses	\$ (3.25)	\$ (11.92)	
	<u>\$ (10.60)</u>	<u>\$ (34.80)</u>	
<u>Net Cash Inflows</u>	<u>\$ (0.35)</u>	<u>\$ 56.13</u>	<u>\$ 55.79</u>
<i>Redemptions of VRDOs</i>	<u>\$ (17.79)</u>	<u>\$ -</u>	<u>\$ (17.79)</u>
<u>Cash and Securities 4/1/15:</u>		\$ 220.8	
<i>Expected use for bond redemptions on 8/1/15</i>		<u>\$ (35.0)</u>	
		<u>\$ 185.8</u>	

Lower collateral posting requirements justify lower cash/securities set-aside

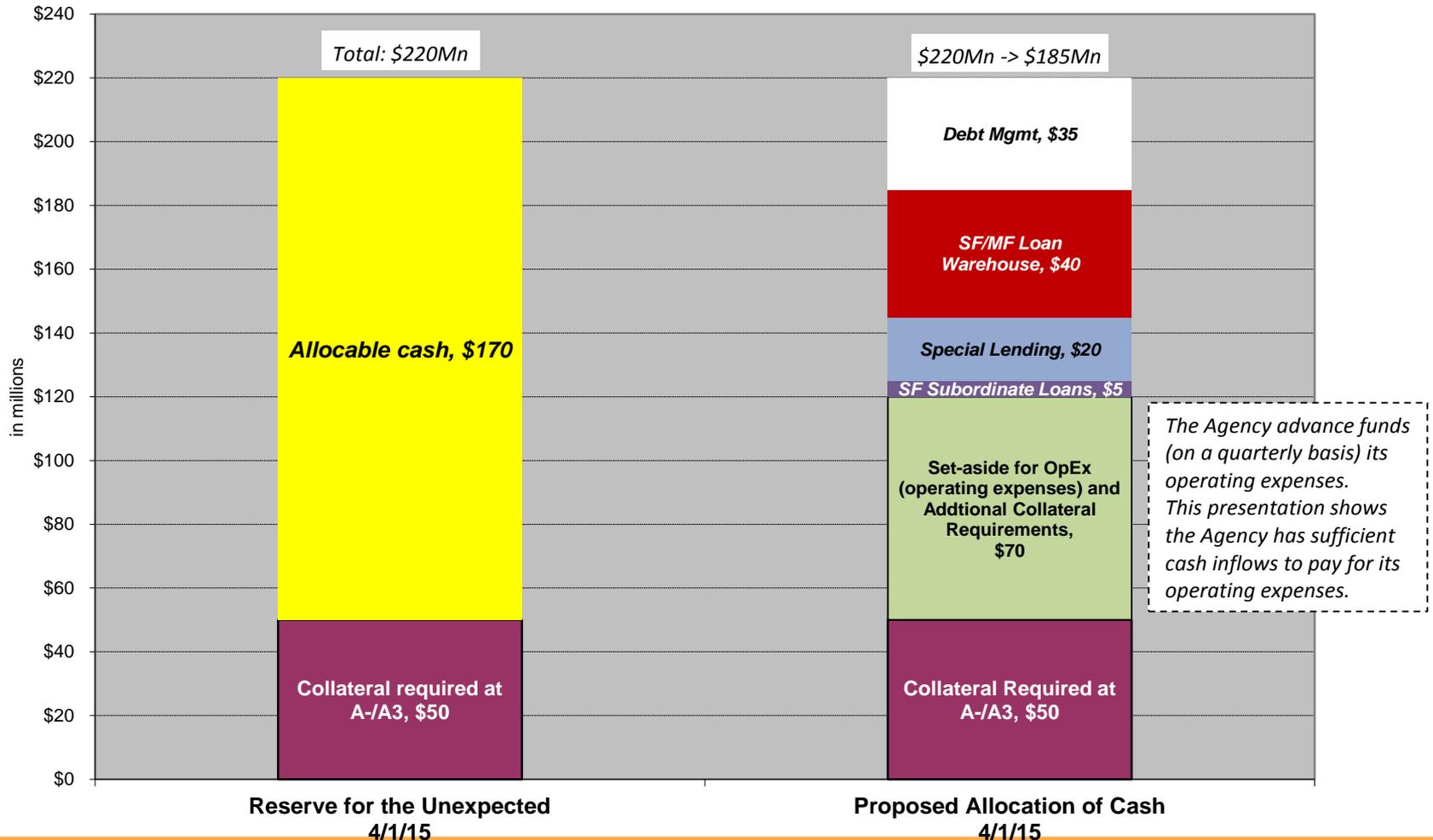


Available cash/securities and collateral posting requirements

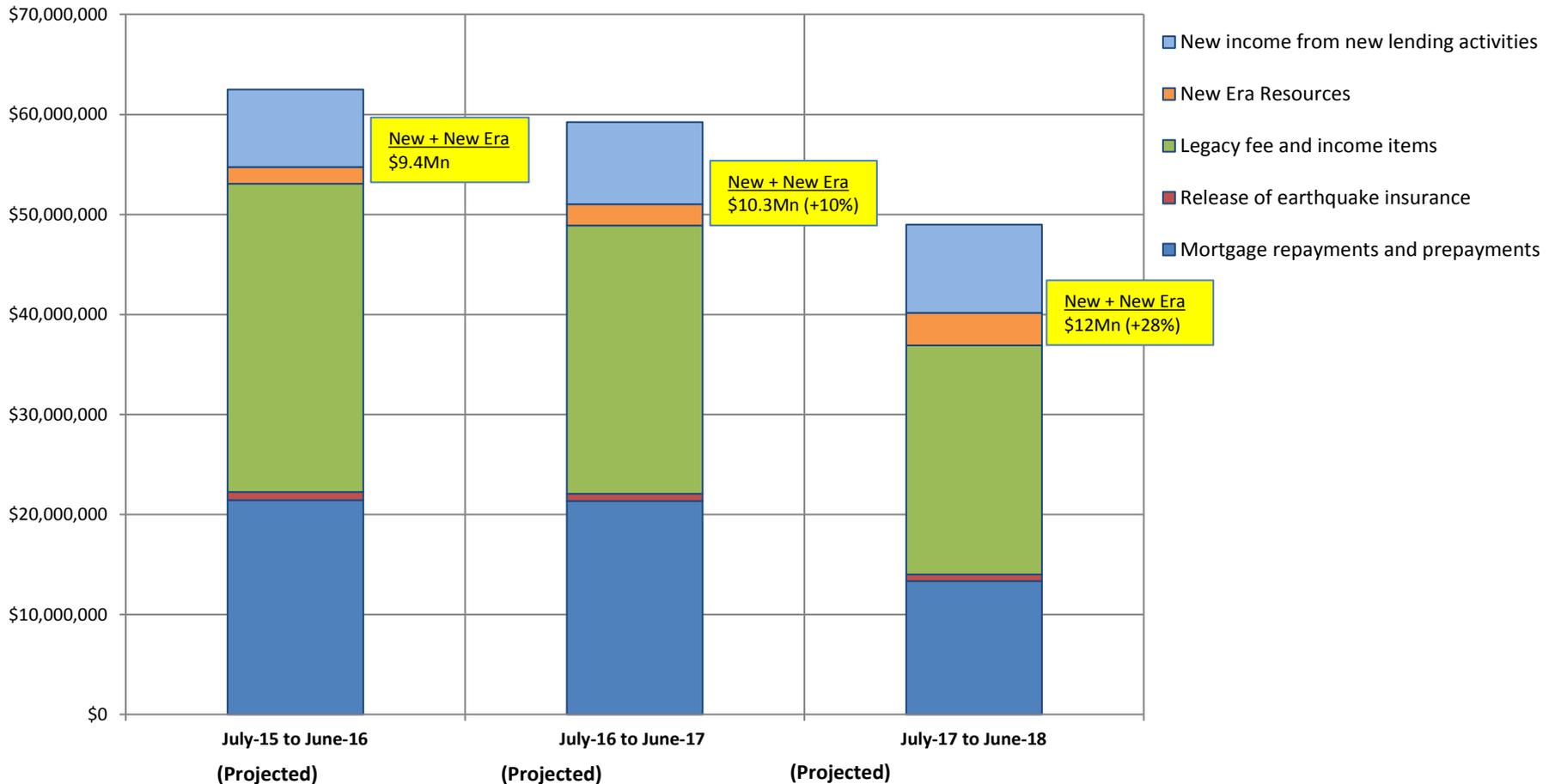


Quarterly by Calendar Year

Less conservative set-aside for collateral risk and operating expenses

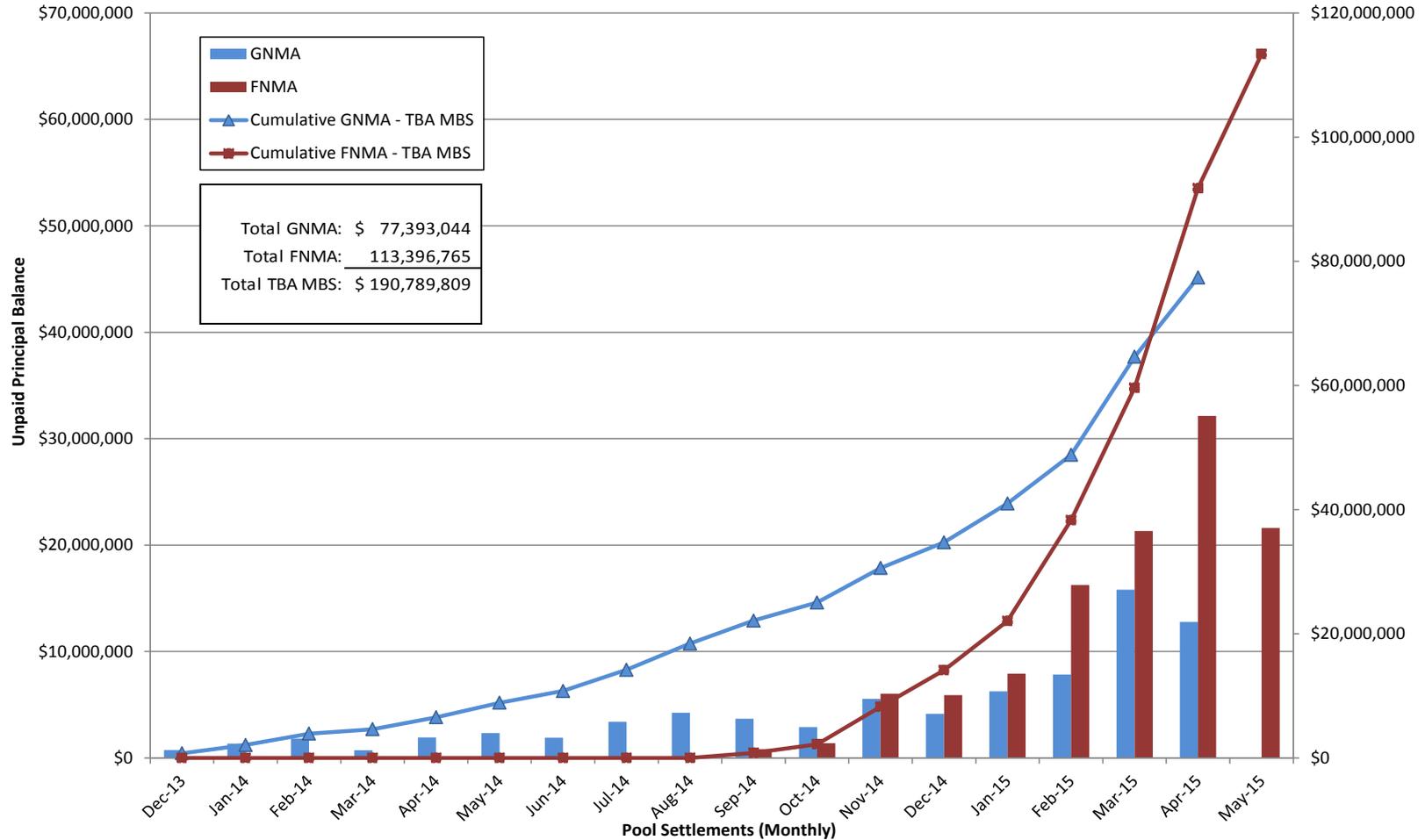


Projected FY15-18: declining legacy resources need to be bolstered by new lending income



SF MBS production to date

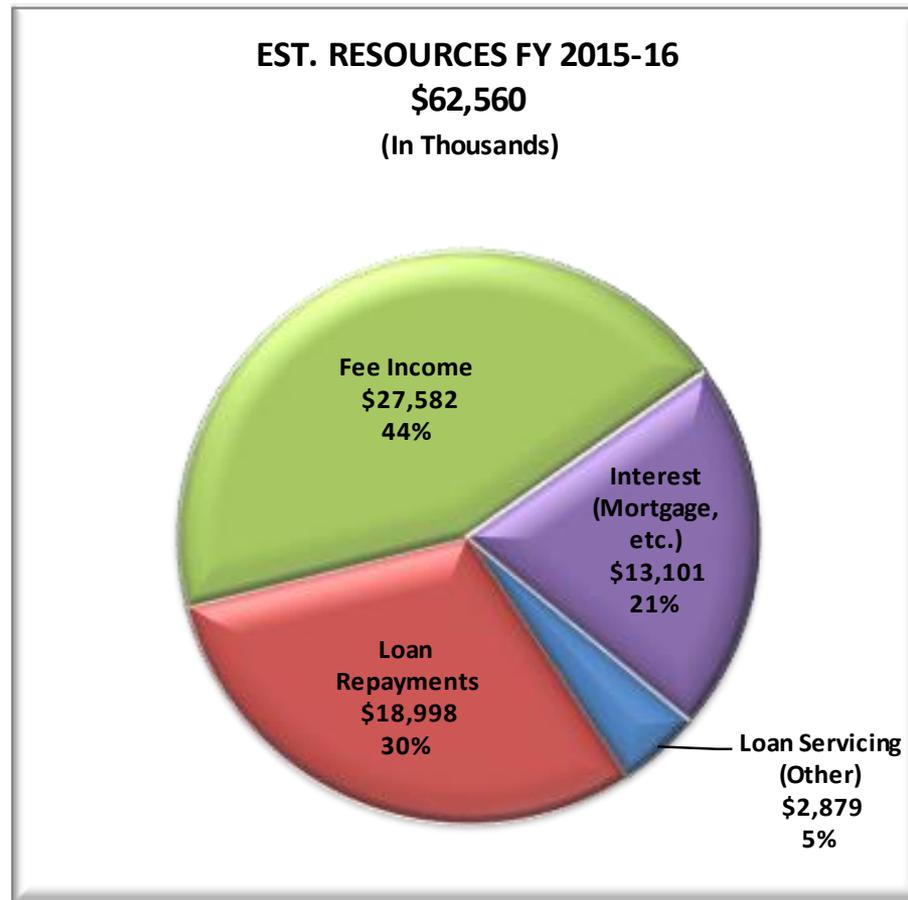
CalPLUS - TBA MBS Settlements by Product Type



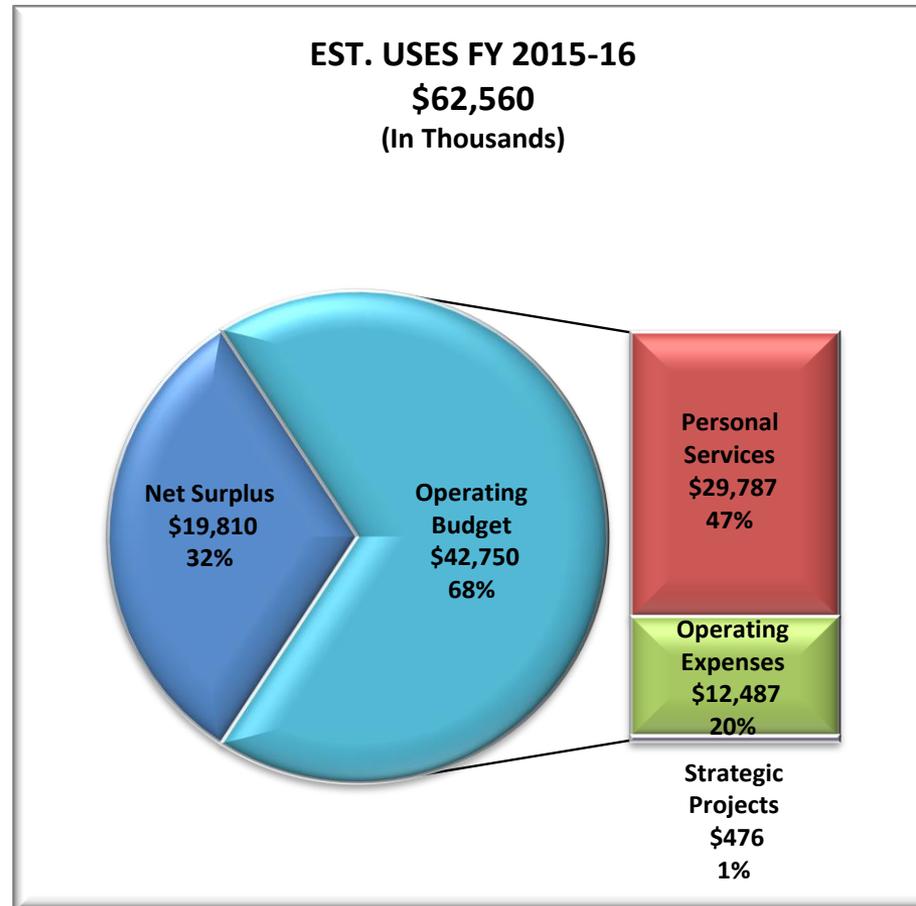
Fiscal Year 2015-16 Proposed Operating Budget

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Proposed FY 2015-16 Operating Budget



Proposed FY 2015-16 Operating Budget



Fiscal Year 2015-16 Proposed Operating Budget

(In Thousands)

	Adopted FY 2013-14 Budget	Adopted FY 2014-15 Budget	Proposed FY 2015-16 Budget	Variance (FY 2015 to FY 2016)	
<u>OPERATIONS</u>					
Salaries and Benefits	28,817	29,984	29,597	(388)	-1.3%
Other	126	137	190	53	38.5%
General Expense	633	677	641	(36)	-5.3%
Communications	509	497	499	3	0.5%
Travel	381	390	414	24	6.2%
Training	115	134	160	27	19.9%
Facilities Operation	3,025	3,084	3,100	16	0.5%
Consulting & Professional Services	3,792	3,674	3,982	308	8.4%
Central Admin. Services	3,795	2,312	2,960	647	28.0%
Information Technology	600	663	602	(61)	-9.2%
Equipment	150	120	130	10	8.3%
Strategic Project Contracts	2,053	1,219	476	(743)	-61.0%
TOTAL	\$43,996	\$42,891	\$42,750	(\$141)	-0.3%
<u>FULL TIME EQUIVALENT POSITIONS (FTE)</u>					
Regular/Ongoing Positions	300.5	285.5	273.0	(12.5)	-4.4%
Temporary Help	12.1	11.4	12.8	1.4	12.3%
TOTAL	312.6	296.9	285.8	(11.1)	-4%

FY 2015-16 Board Budget

Category	Proposed Budget	Comments
Personal Services	\$5,100	Board Per Diem
General Expenses	\$2,000	
Communications	\$5,000	
Travel In-State	\$8,000	
Travel Out of State	\$20,000	
Training	\$15,000	
Consulting and Professional Services	\$25,000	Court Reporter
TOTAL BUDGET	\$80,100	

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