California Housing Finance Agency

Financial Update

May 23, 2023

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Financial Market Overview

- The failures of Silicon Valley Bank, Signature Bank, and First Republic Bank have impacted the capital markets
  - First bank failure since a $70.0 million bank failed in October 2020
  - Largest bank failure since Washington Mutual in September 2008

- Beginning with the closure of SVB, longer-term Treasury rates began to fall sharply

- Currently, the pending default of the US Government through the failure to increase the debt ceiling is having a major impact
  - On May 4, 2023, the 1-month Treasury increased in yield by 106 basis points, representing a maturity after the theoretical June 1 default

Summary of CalHFA Banking Relationships

- CalHFA's accounts are typically invested in the Surplus Money Investment Fund (within the Pooled Money Investment Account), managed by the State Treasurer
  - As of March 31, 2023, 64.2% of the fund is invested in Treasuries and 21.7% is invested in Agency Securities, with the remaining funds invested in CDs, Commercial Paper and Time Deposits

- CalHFA's parity bond Trustee is US Bank and its standalone bond Trustee is Wilmington Trust

- CalHFA does not have banking exposure to Silicon Valley Bank, Signature Bank, or to First Republic Bank

- CalHFA's Multifamily Projects are not financially impacted by the banking failures

Summary of CalHFA's Bonded Indebtedness

- Financing prepares a bond and swap summary report on a semi-annual basis for the Board

- As of 3/30/2022 there are no outstanding parity bonds in the Multifamily Housing Revenue Bond III Indenture

- As of 12/29/2022 there are no outstanding parity bonds in the Home Mortgage Revenue Bond Indenture

- Board Approved a new Multifamily parity indenture at its meeting in March 2023, and the Board will be asked to consider a new Single Family parity indenture at its next meeting
  - Assets contained in the current indentures will be used for credit support for future bond issuances

Summary of CalHFA's Swap Portfolio

- The Board approved a Financial Risk Management Policy in 2022 that delineated swaps into the orphan "Pre-2014 Swaps" and new hedges

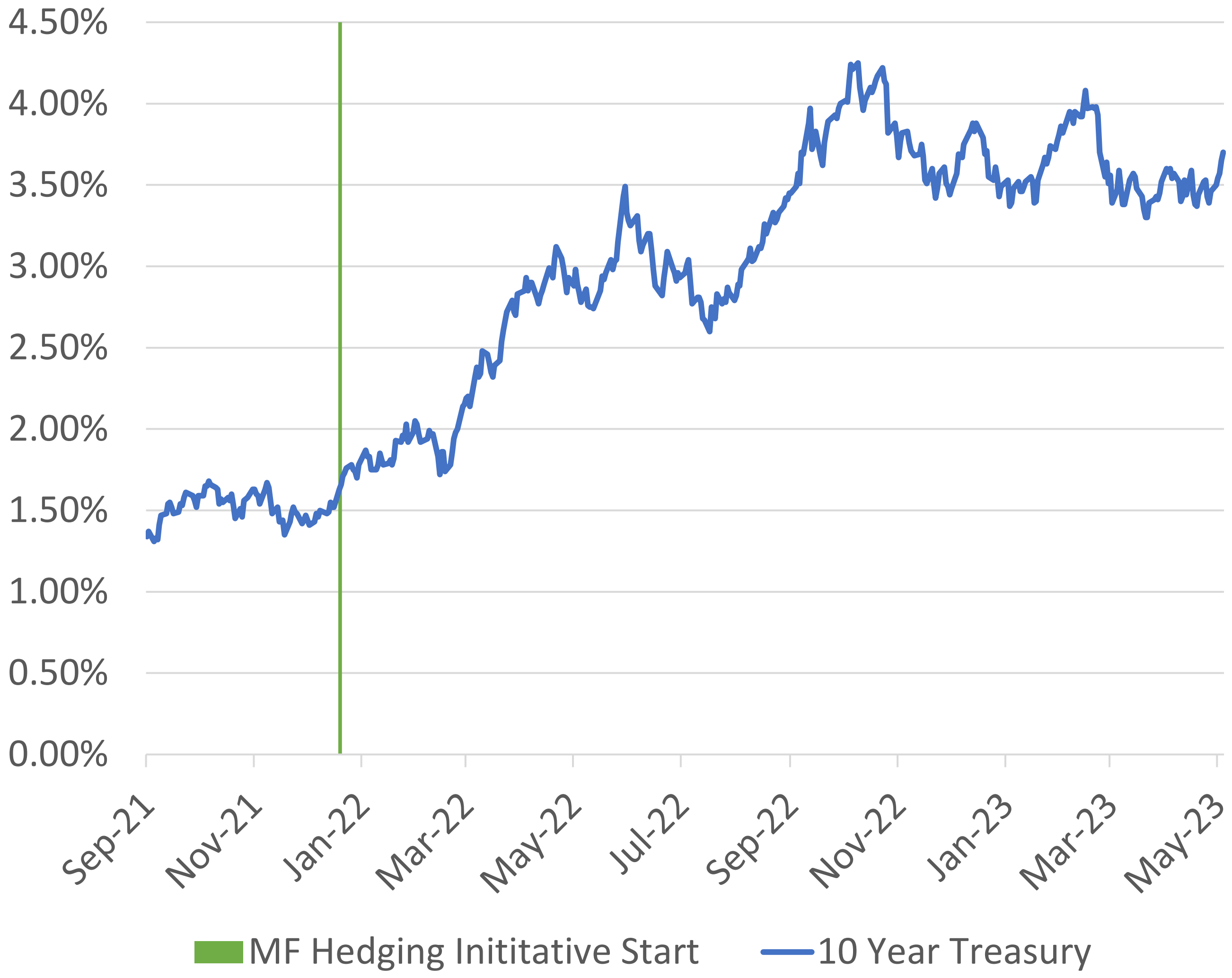
- As a lender of permanent loans only for multifamily projects, CalHFA is exposed to interest rate changes between construction closing and permanent loan closing
  - In the current market, this period can be greater than 36 months

- Additionally, CalHFA still carried over $360 million in Pre-2014 Swaps as a liability on its balance sheet
  - Financing was required by Policy to conduct a quarterly cost-benefit analysis for termination of these swaps

Multifamily Hedging Initiative

- Since the start of the hedging initiative in January 2022, CalHFA has hedged interest rate risk on 22 projects for a total of $365.2 million in Notional Hedging $555.7 Million in future loan commitments

- Hedges were also key to the Early Rate Lock offered to MIP 2022 projects, which saved an estimated 10 basis points on each project and provided certainty in a volatile market

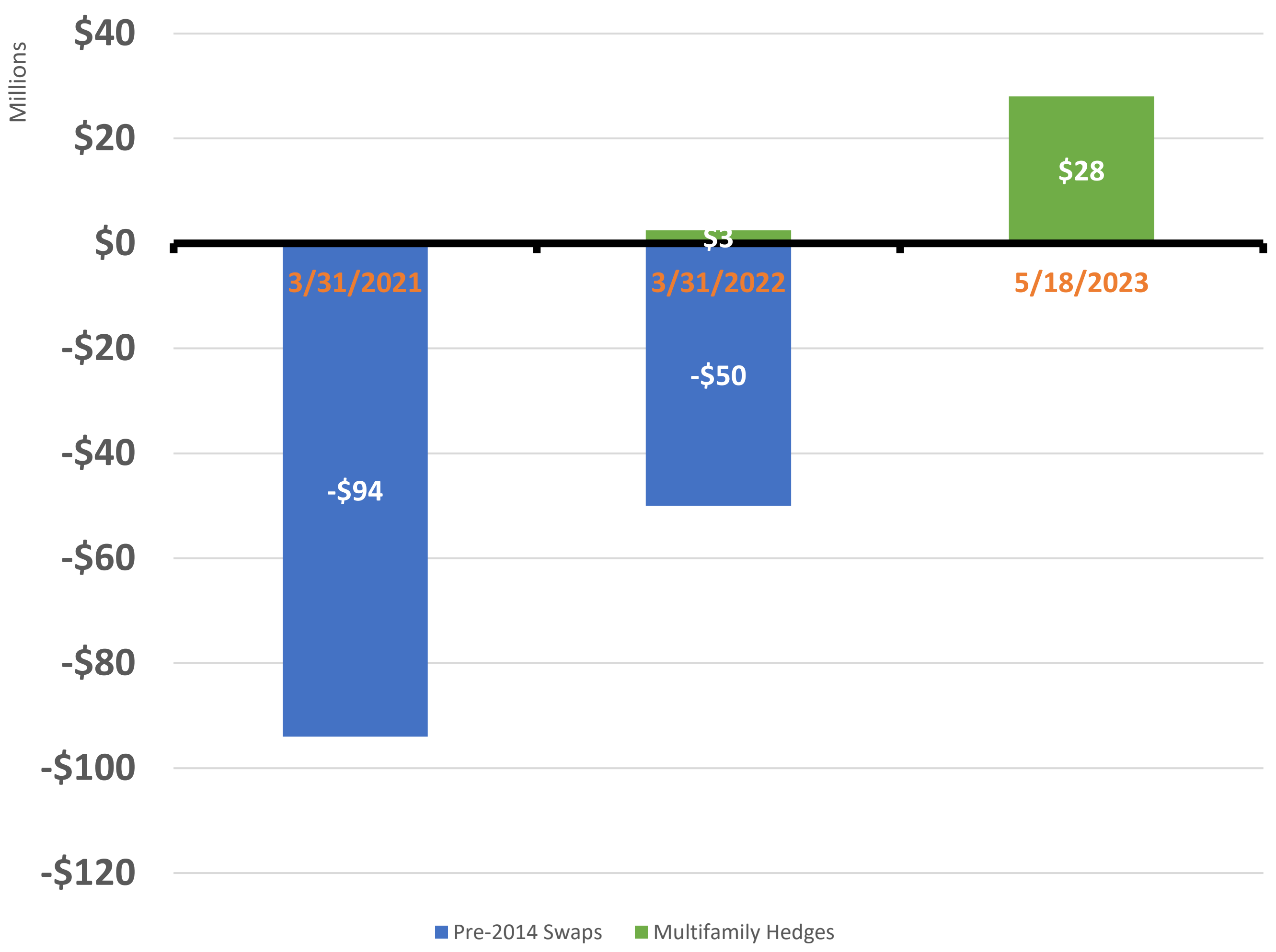


Orphan Swap Terminations

- The Financial Risk Management Committee Met in August for a regular update on interest rates and swap risk
- On September 6, 2022, the Committee met to recommend the termination of the Agency's orphan swap portfolio, which was approved by the Executive Director on September 8
- CalHFA executed terminations of $360.9 million in swaps over the following six months, successfully concluding in March 2023

Swap Valuations

- CalHFA is continuing to mitigate interest rate risk through new multifamily hedges
- Currently, the Agency's swap portfolio is valued at $28 million
- The swap payments are acting as a hedge for future obligations of the Agency to deliver interest rates that were agreed to prior to the current economic environment
- The valuation may decrease, or increase based on market conditions



Next Steps

- All CalHFA financial committees (Financial Risk Management, Investment & Debt Management, and Disclosure) to convene to review policies ahead of next Board meeting

- Board of Directors will be asked to approve changes in these Policies