

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's affirms Baa2 rating for California Housing Finance Agency's Home Mortgage Revenue Bonds, outlook revised to positive; affirms A3 for issuer rating and Housing Program Bonds, outlooks revised to stable

Global Credit Research - 28 Feb 2014

New York, February 28, 2014 -- Moody's Investors Service has affirmed the long-term underlying rating on California Housing Finance Agency's Home Mortgage Revenue Bonds (HMRB- \$3.017 billion outstanding at 6/30/13) at Baa2. The outlook on the rating is revised from negative to positive. Moody's has also affirmed the Agency's issuer rating at A3, and has at the same time affirmed the A3 ratings on the Housing Program Bonds (HPB - \$69.7 million outstanding). The outlook on the issuer and HPB ratings is revised from negative to stable. This action does not affect enhanced ratings on any of the Agency's variable rate demand bonds. No other ratings of the Agency are affected by this action, including the rating on the Multifamily Housing Revenue Bonds III.

RATINGS RATIONALE

The rating of HMRB, and the change in outlook from negative to positive, are based on the program's clear upward momentum demonstrated by increased balance sheet strength and profitability, declines in losses from single family mortgage loan delinquencies and foreclosures, improvements in the California housing markets, and cash flow projections that demonstrate improved ability to absorb stresses related to loan losses and variable rate debt. It also takes into account the upgrade of Genworth Mortgage Insurance Corporation (GMICO) to Ba1 (outlook positive), from Ba2 on February 5, 2014.

Our affirmation of the issuer rating and Housing Program Bonds, and the change in outlook from negative to stable, is based on the Agency's emerging recovery from the stresses of the mortgage crisis and recession, demonstrated by improved financial performance, reduced delinquencies and losses in single family loans, and declining, although still significant, pressure on cash flows and liquidity from variable rate debt and interest rate hedges. It further reflects strong actions by management to mitigate financial stress, continued strength of multifamily programs, federal support through TCLP liquidity facilities, NIBP bonds and Hardest Hit Funds, and a positive relationship with the State.

Strengths: HMRB

Improving financial performance: increases in adjusted asset- to- debt ratio (PADR) and profitability through the recent period of deleveraging

Mortgage insurance mitigates loan losses: FHA insurance on 28% of loans, Genworth Mortgage Insurance Corporation reinsurance on 35% of loans (GMICO, upgraded to Ba1 positive on 2/5/14)

Improved loan asset performance due to decreases in loan delinquencies/foreclosures and reduced losses on foreclosed loans

Federal resources, including external liquidity support for variable rate bonds and funds for mortgage loss relief, bolster HMRB performance

CalHFA support as net swap payments are paid by the Agency subject to reimbursement by HMRB

Strong management actions continue to improve program performance

Challenges: HMRB

Mortgage delinquencies, although down by half from peak levels, remain elevated compared to averages of rated peers and statewide benchmarks

GMICO reinsurance policies became subject to rollover on the 10th anniversary of each vintage (subject to reimbursement of accumulated reserves) reducing benefit of mortgage insurance; CalHFA decisions on renewal impacts coverage going forward

Unhedged portion of variable rate debt causes stress in rising interest rate cash flow scenarios

External Liquidity Facilities on VRDBs scheduled to expire on 12/23/15, and if not extended or replaced will result in higher interest rates on the bonds and accelerated repayment of bonds by 12/22, adding stress to cash flow scenarios

Strengths: issuer rating and HPB

Strengthened financial performance, including increased asset to debt ratio and strong rebound in profitability

Asset quality: improved single family loan performance, and continued strong performance of multifamily program

Federal resources, including external liquidity facilities for variable bonds, low-cost financing for bond debt and funds for mortgage relief, have helped to diminish key risks

Management has demonstrated ability to be proactive in addressing financial risks

Challenges: issuer rating and HPB

High levels of variable rate debt bring interest rate risk and potential cash flow stress due to expiration of external liquidity facilities (provided by federal TCLP program) at the end of 2015

Swap collateral posting poses potential stresses on liquidity, although the severity is diminishing

Single family mortgage loan performance, although improved, remains below State HFA and California statewide metrics

OUTLOOK

The outlook for the HMRB rating is revised from negative to positive based on improved financial and loan performance, progress in reducing stresses from variable rate debt, an improving state economy, and effective program management.

The outlook on the Agency's issuer rating (and the rating of the Housing Program Bonds) is changed from negative to stable, based on improved financial performance, progress in reducing stress from variable rate debt, improving asset quality, and effective management.

What Could Change the Rating Up -- HMRB

Continuation of the current trend of improved financial performance, including growth of PADR and profitability

Continued improvement in performance of mortgage loans, reflected in delinquency levels that are comparable to state and sector peers and continued declines in actual program losses.

Reduced risk of VRDBs subject to liquidity expiration or early redemption, through facility replacement/extension or repayment/refinancing of bonds, demonstrating improvement in cash flow projections

What Could Change the Rating Down -- HMRB

A reversal of the trend in financial performance, including reduced PADR and/or profitability

A reversal in improving trends or mortgage loan performance, through increased delinquencies or foreclosures leading to increasing losses

Increased risk of VRDBs subject to liquidity expiration/early redemption as expiration date for TCLP facilities approaches, pointing to increased stress in cash flow projections

What could change the rating up -- Issuer Rating and HPB Bonds

Improved financial performance; rising asset to debt ratios and improving profitability

Continued trends of improvement in single family loan performance and strong multifamily performance

Meaningful and sustained reductions in variable rate exposure to mitigate risks associated with expiration of external liquidity facilities

Improved liquidity position, with lower potential stress from collateral posting on interest rate swaps

What could change the rating down - Issuer Rating and HPB Bonds

Reversal of trends in financial performance, including lower asset to debt ratios and/or diminished profitability

Higher than anticipated losses from single family loans or decreases in performance of multifamily loans

Weakened liquidity position through collateral posting on interest rate swaps and/or variable rate debt repayment

Weaker performance in cash flows due to expiration of external liquidity facilities

RATING METHODOLOGIES

The principal methodology used in rating the Home Mortgage Revenue Bonds was U.S. Housing Finance Agency Single Family Programs published in February 2013. The principal methodology for the senior unsecured rating, and the Housing Program Bonds was Moody's Methodology for Assigning Issuer Ratings to Housing Finance Agencies published in May 2001. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

William Fitzpatrick
VP - Senior Credit Officer
Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Florence E Zeman
Associate Managing Director
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007

U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653



© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended

to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.