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# California Housing Finance Agency; General Obligation


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# California Housing Finance Agency; General Obligation

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## Rationale

Standard & Poor's Ratings Services revised the outlook to stable from negative and affirmed its 'A-' issuer credit rating (ICR) on California Housing Finance Agency (CalHFA) and its 'A-' long-term rating on CalHFA's general obligation (GO) debt.

The ratings reflect our opinion of:

- The 33.8% decline in net losses from fiscal year 2012 to fiscal year 2013 and improvement in profitability, asset quality, and leverage ratios;
- CalHFA's seasoned and proactive financial management;
- CalHFA's reduced exposure to variable-rate debt and swaps; and
- The improvement in CalHFA's delinquency and foreclosure rates in the agency's loan portfolio.

Partly offsetting the above strengths, in our opinion, are the following weaknesses:

- Declines in equity levels since 2009, which have reduced the agency's financial strength and flexibility;
- Continuing high levels of nonperforming assets (NPAs) relative to the state and its peers;
- Private mortgage insurance from unrated or speculative-grade providers for approximately 36% of CalHFA's loans in its largest single-family bond program; and
- Financial challenges resulting from the agency's historical use of variable-rate debt and swaps.

For the fiscal year ended June 30, 2013, CalHFA reported a significant decline in its net loss of $69.7 million, a more than 33% drop from the previous fiscal year. This is the agency's fifth straight year of losses, with the peak loss of $188 million in fiscal year 2010. After reviewing fiscal year 2013 financial results, it appears as if CalHFA has turned the corner, with several of its profitability, asset quality, and leverage ratios improving from fiscal year 2012 and fiscal year 2011 levels.

In our opinion, management took steps to reduce the agency's relatively high-risk debt profile by redeeming approximately $2.7 billion (55%) of variable-rate debt during the past three-and-a-half years and is exercising swap early termination options when possible. Of particular note is the agency's reduction of approximately $80 million in Temporary Credit and Liquidity Program (TCLP)-backed variable-rate debt in the housing program bond (HPB) indenture, which no longer contains TCLP-backed variable-rate debt as of Nov. 1, 2013. These efforts help to not only reduce the agency's exposure to variable-rate debt, but also the exposure to TCLP, which expires in 2015. In addition, the agency has implemented loss mitigation measures that have contributed to a decline in delinquency and foreclosure rates in its single-family loan portfolio.

Despite the proactive measures taken by management to mitigate losses and risk exposure, CalHFA experienced continued losses and declines in equity levels in fiscal years 2012 and 2013. Even though CalHFA had a significant decline in losses in fiscal year 2013, the agency has still not crossed the threshold into profitability. In our view, the challenges continuing to face the agency in the next few years relate to its historical use of a significant amount of variable-rate debt and swaps. We anticipate that collateral postings on swaps will continue, albeit at significantly reduced levels due to declines in notional amounts and rising interest rates. In addition, the agency must replace liquidity facilities on all of its TCLP-backed variable-rate debt by the end of 2015. Moreover, the agency continues to contend with circumstances that are beyond its control, such as the real estate market's slow recovery, the persistent low interest rate environment, and the changing landscape of the municipal bond market. In our opinion, the progression of these trends will affect CalHFA's overall creditworthiness.

## Outlook

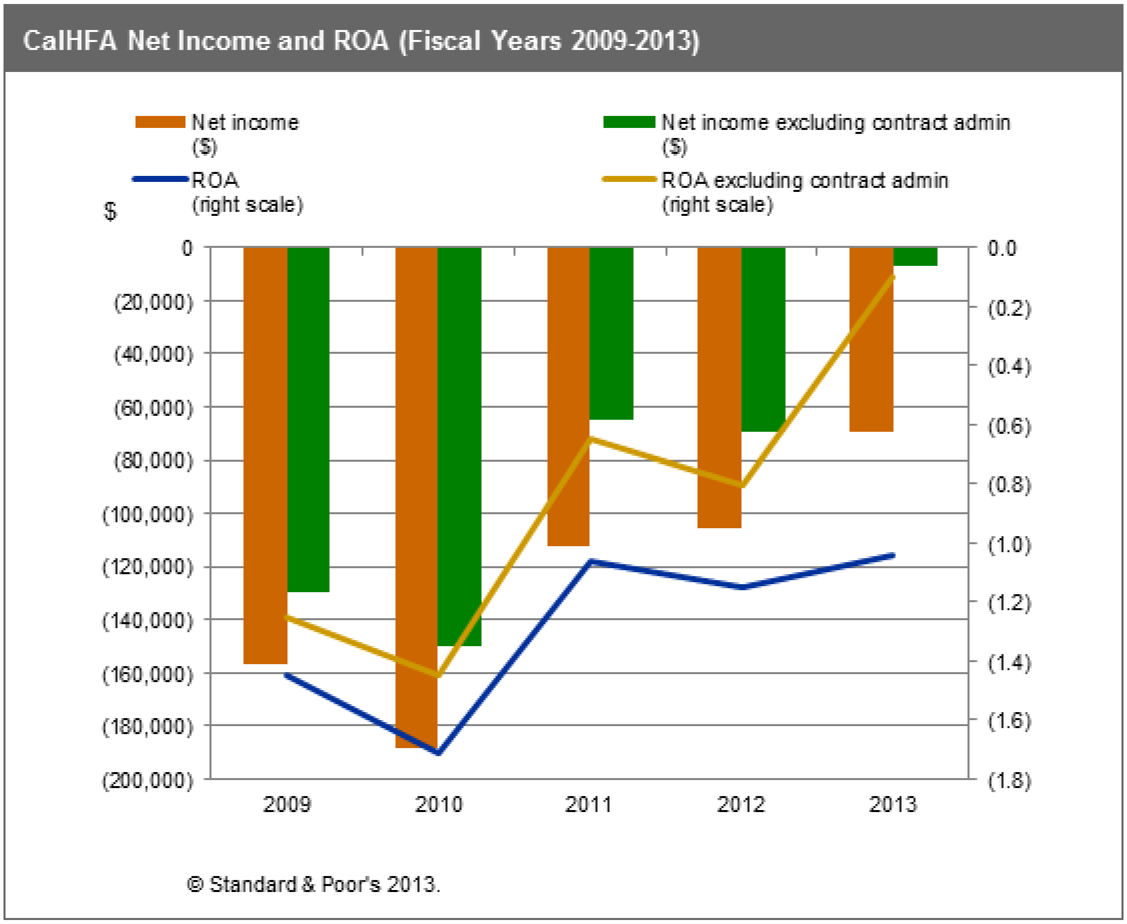
The stable outlook reflects our view of the significant decline in losses in fiscal year 2013, following two years of declines in losses; as well as improved profitability, asset quality, and leverage ratios. If CalHFA's profitability worsens or if its equity ratios or unrestricted fund balance declines, we could lower the ratings. If the agency turns a profit and demonstrates sustained improvement in its overall financial strength over the long term, we could raise the ratings.

## Earnings Quality And Financial Strength

As noted above, the agency reported an overall net operating loss of $69.7 million for the fiscal year ended June 30, 2013, down from $105.4 million in fiscal year 2012. However, all of these losses were associated with state-funded programs that CalHFA administers but for which the agency has no obligation. After deducting losses related to these programs, the agency's net losses were, in our view, less substantial at $69 million and $7 million in fiscal years 2012 and 2013, respectively.

In fiscal year 2013, the agency experienced declines in investment, loan, and other income of 8.8%, 11.5%, and 49.9%, respectively. Offsetting the decline in revenues in fiscal year 2013 was a 22.5% decline in expenses due to decreases in bond interest expense, swap basis mismatch, swap termination expenses, and provisions for loan losses. This resulted in a significantly reduced net operating loss than in the previous two fiscal years, with net losses declining from $117 million in 2011 (a 40% decrease) and $188 million in 2010 (a 63% decrease).

**Chart 1**

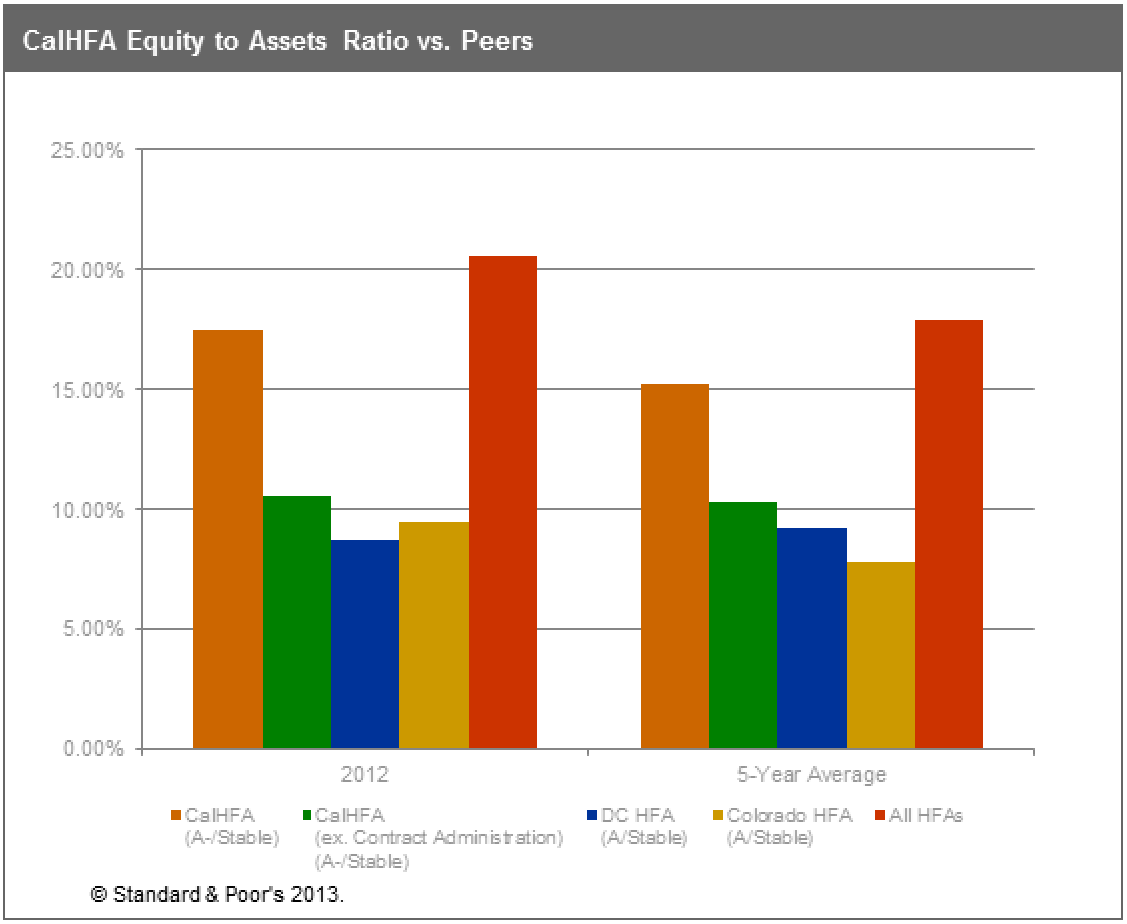



CalHFA's reduced operating losses in fiscal 2013 led to improved, albeit still negative, profitability ratios. As shown in chart 1, return on assets (ROA) remained below zero, at -0.92%, as of June 30, 2013, but was slightly improved from -1.14% and -1.10% in fiscal years 2012 and 2011, respectively. As of fiscal 2013, the five-year averages of CalHFA's ROA ratios were well below those of all other rated housing finance agencies (HFAs). We will continue to monitor this element of the agency's finances.

On a positive note, CalHFA's net-interest-margin (NIM) ratio has increased in the last two fiscal years to 1.56% in 2013, from 1.49% and 1.25% in fiscal years 2012 and 2011, respectively. This is evidence of a widening spread between loan/investment income and bond interest expense. Over the last five years, the agency's NIM ratio has trended upward and the five-year average, as of fiscal 2013, was above that of many higher rated HFAs.

The agency's fund balance declined by 7.3% to $1.36 billion in 2013 from $1.48 billion in 2012. Since 2009, the CalHFA's fund balance has declined by an average of 5.8%. Despite this, CalHFA's equity-to-assets ratio has improved steadily over this time period, to 20.2% in fiscal 2013 from the five-year low of 13.3% in fiscal 2009. Excluding equity associated with contracts that the agency administers on behalf of the state of California, equity shrinks by 84% to approximately $738 million in 2013. Assets from contract administration are completely restricted and not available to the agency for programmatic or capital purposes. Removing these assets from CalHFA's balance sheet lowers the equity-to-assets ratio to 10.56% in fiscal 2013; however, this is an increase from 9.59% in fiscal 2012. The five-year average of CalHFA's equity-to-assets ratio was 16.6% as of fiscal 2013; however, when excluding contract administration this ratio falls to 10.43%. Nevertheless, the five-year average of this ratio calculated either way exceeds that of 'A' rated HFAs.

**Chart 2**




Our capital adequacy analysis, which also excludes contract administration from CalHFA's equity levels, indicates an unrestricted equity to debt calculation of 11.6% in 2013, a significant improvement from 6.8% in 2012, and well above our 4% threshold. The ratio of adjusted liquid assets to mortgages was 8.8% in 2013, up from 7.9% in 2012, also well above our 2% threshold. These ratios have improved significantly in 2013, in our opinion, and although CalHFA still faces challenges that could potentially impact its equity position in the near future, we do not anticipate that the impact will be as substantial as what the agency experienced between 2009 and 2011.

## Asset Quality

CalHFA's asset base decreased by 20.1% to $6.75 billion in fiscal 2013, following two years of declines of 15.4% and 11.2% in 2012 and 2011, respectively. Mortgage loans accounted for the bulk of the agency's assets in 2013, at 70.9%;

however, the agency's mortgage loan balance has declined consecutively, by an average of 10%, during the last five years.

Approximately 63% of the agency's loan portfolio consists of single-family mortgages. We consider the single-family loan portfolio to be of significantly higher risk relative to that of other HFAs. As of June 30, 2013, approximately 36% of loans were conventional loans insured by a nonrated mortgage insurer, CaHLIF. CaHLIF has a reinsurance contract with Genworth Mortgage Insurance Co. (B/Stable). However, since neither CaHLIF nor Genworth currently carries investment-grade ratings, we do not assume any recoveries from CaHLIF or Genworth, in accordance with our criteria. While CaHLIF is unable to fully honor claims due to its insolvency, Genworth continues to pay claims and has rescinded less than 1% of claims since the beginning of the reinsurance policy in 2004.

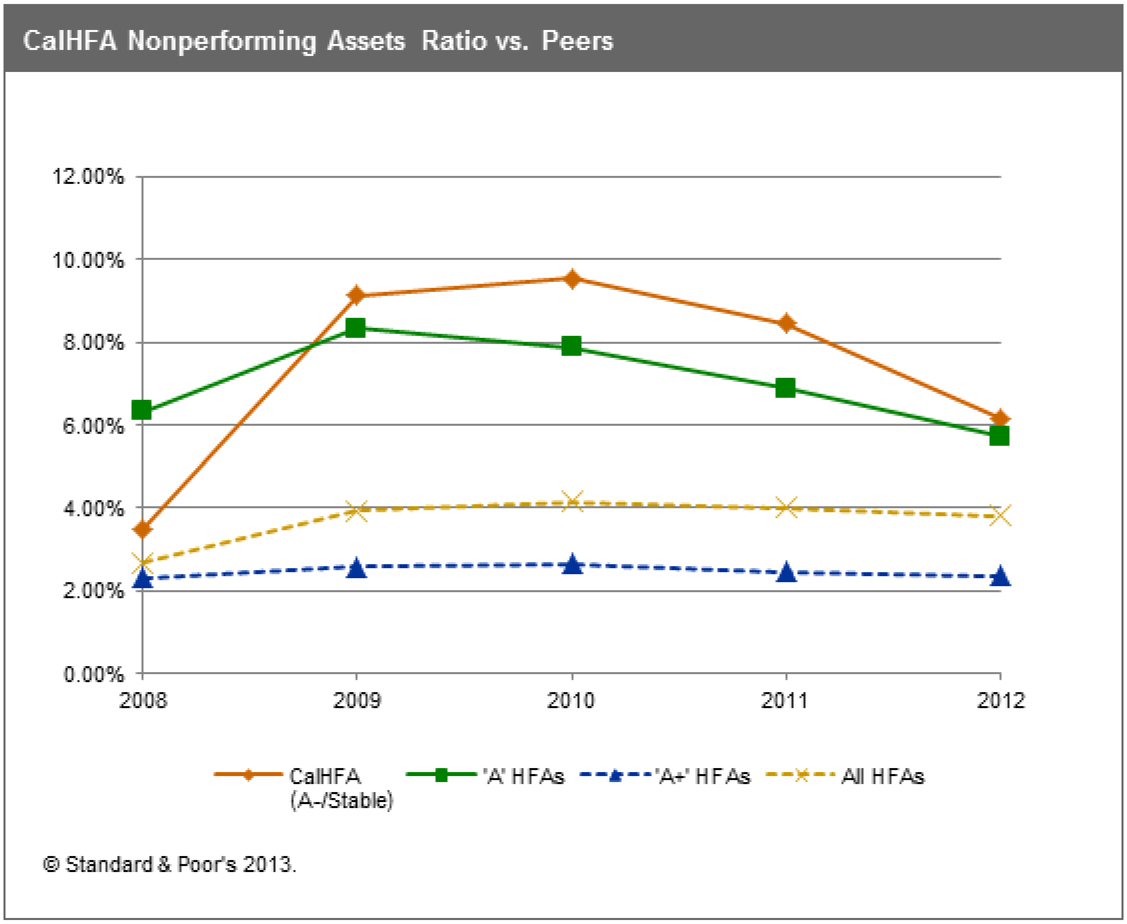
In addition, approximately 20% of CalHFA's single-family loan portfolio consists of interest-only loans (consisting of both insured and uninsured loans), on which only interest is paid for the first five years and which then amortize over the next 30 years with the same interest rate. Another 5% of loans had 40-year terms rather than the standard 30-year term. Overall, in addition to the conventionally insured loans, approximately 28% of single-family loans were Federal Housing Administration-insured, 35% were uninsured, and 1.1% were Veterans Administration- or Rural Development-guaranteed as of June 30, 2013.

### Nonperforming assets

In our view, CalHFA continues to face challenges stemming from the slowly recovering real estate market. In the last three fiscal years, however, delinquency and foreclosure rates among the agency's loans have declined from their previous record highs. The agency's NPA ratio, as measured by loans that were 60 or more days delinquent or in foreclosure as a percentage of total loans, fell to 5.60% in 2013 from 6.15% in 2012, and from a record high of 9.53% in 2010. While this represents a substantial decline of 61.6% to $269 million from approximately $700 million in fiscal 2010, it compares to an NPA ratio of just 1.53% in 2007, prior to the financial crisis.

Chart 3 below compares CalHFA's NPA ratio with those of HFAs rated 'A+' and 'A' as well as all other rated HFAs. In fiscal 2012, CalHFA had the fifth-highest NPA ratio out of all rated HFAs. During the period from fiscal 2009 through fiscal 2012, CalHFA's NPA ratio exceeded that of other HFAs rated 'A+' and 'A' as well as the average NPA ratio for all rated HFAs. However, as shown in the chart, in 2012, CalHFA's NPA ratio stood just above HFAs rated 'A' at 6.15% versus 5.74%. CalHFA's NPA ratio further improved to 5.60% in 2013, a level more in line with 'A' rated HFAs.

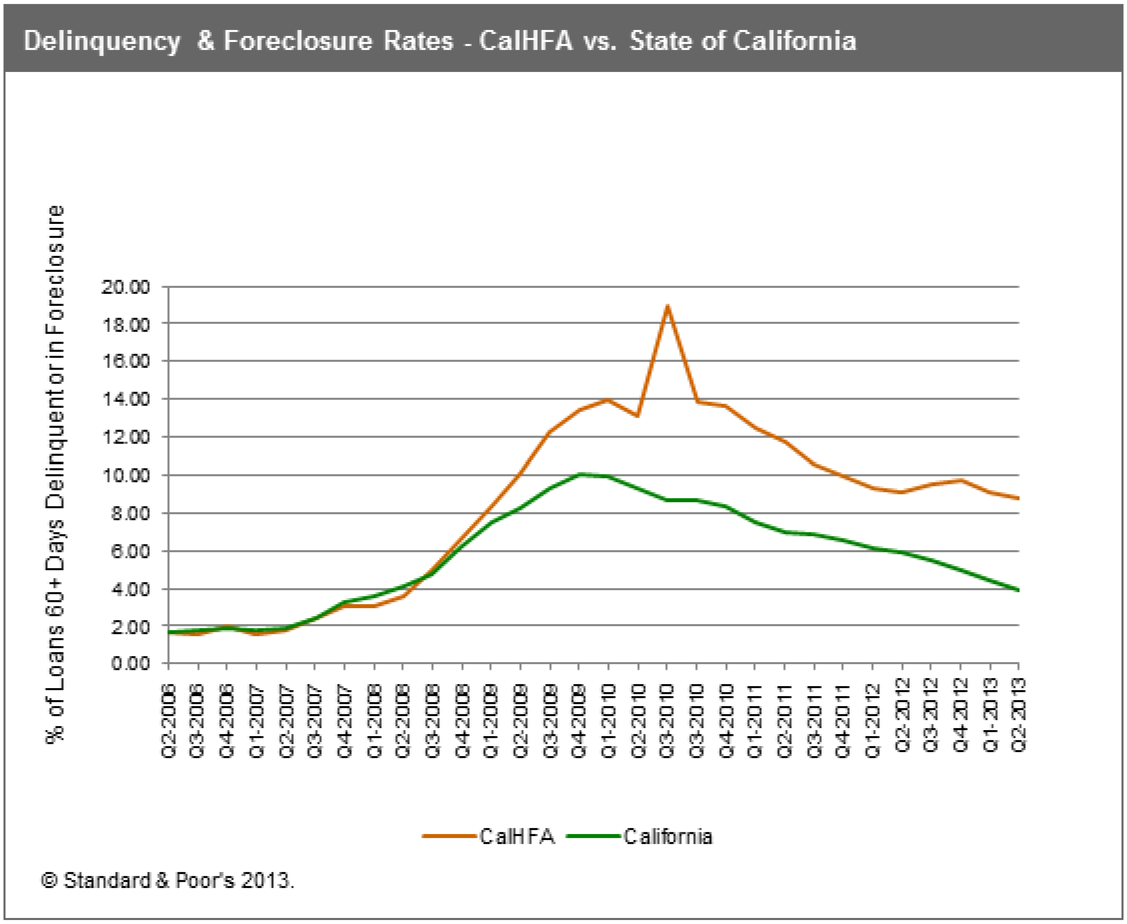
**Chart 3**




Most of the delinquency issues have historically occurred within the agency's single-family program, with the bulk of loans originated under the Home Mortgage Revenue Bond (HMRB) bond resolution. The indenture's delinquency and foreclosure rates have declined in the past several years from their previous record highs in 2009 and 2010. Assistance from the "Keep Your Home California" principal reduction program and loan modifications have ramped up since September 2012. As of Sept. 30, 2013, CalHFA reported a 60-day-plus delinquency and foreclosure rate of 8.47% for loans under the HMRB resolution, down slightly from 8.73% in the second quarter of 2013, and significantly lower than the third quarter of 2012 at 9.69%. Interest-only loans have continued to suffer higher delinquency and foreclosure rates, nearly twice that of 30-year, fully amortizing loans (13.6% versus 7.6% as of Sept. 30, 2013). Similarly, 40-year loans had a 60-day-plus delinquency rate of 12.6% as of Sept. 30, 2013, also significantly higher than the 7.6% rate reported for 30-year loans. Nonetheless, the portfolio has generally shown a downward trend in delinquency and foreclosure rates for all loan products since the peak of 13.98% in the first quarter of 2010. In addition, CalHFA's real estate-owned (REO) inventory has declined significantly to 102 units as of June 30, 2013, from its high of 1,110 units in 2011. REO properties decreased $66.1 million to $20.1 million as of June 30, 2013, compared with $86.2 million as of June 30, 2012.

Compared with the Mortgage Bankers Association's statistics for the state of California, CalHFA's delinquency and foreclosure rates have been higher for the past 19 consecutive quarters (through June 30, 2013), assuming a similar composition of loans, although the gap appears to be narrowing.

**Chart 4**




## Loan loss reserves versus actual losses

Since August 2011, CalHFA has held loss reserves under HMRB indenture to cover the anticipated shortfall for previously insured loans. As of June 30, 2013, the allowance for loan loss reserve was $109.1 million, a decline from $117 million in fiscal 2012. Under the HMRB indenture, CalHFA recorded $56.7 million in losses on the sale of foreclosed properties and on short sales (net of insurance payments) during fiscal 2013, plus a $6.2 million write-down on the remaining foreclosed properties.

## Multifamily loan

Multifamily loans represented 25% of all loans as of June 30, 2013. The vast majority of the agency's multifamily loans were originated under its multifamily III bond resolution, with approximately $713 million in outstanding multifamily loans as of June 30, 2013. The agency maintains reserves to cover potential losses related to its rental housing developments. We evaluate the loan loss reserves for all multifamily loans as part of the capital adequacy process. Loan performance has been extremely strong, with no loans delinquent as of Feb. 1, 2013.

### Investments

The majority (65.1%) of CalHFA's funds are invested in the state's Surplus Money Investment Fund, with its other funds invested in federal agency securities (25.8%), investment agreements (5.6%), repurchase agreements (1.7%), and cash or cash equivalents (1.8%). Cash and investments totaled $1.9 billion as of June 30, 2013, a 31.8% decrease from $2.8 billion on June 30, 2012. The decrease is primarily due to the increase in bond redemption activity in homeownership and multifamily programs. Approximately 74% of the agency's investments are short term, maturing in one year or less.

## Debt

CalHFA's debt as of June 30, 2013, totaled $4.9 billion, reflecting a 26% decrease from the previous fiscal year due to scheduled principal payments and bond redemptions. CalHFA's debt consists of bonds that are issued under multiple indentures, the proceeds of which are used to originate single-family mortgages (76%) and multifamily mortgages (24%). Approximately 62% of the agency's total debt has been issued under its largest active single-family resolution, HMRB. This is a significant decrease from the 81% of bonds outstanding under HMRB in fiscal 2009, due to the agency's efforts to redeem variable-rate debt under HMRB. In addition, the Residential Mortgage Revenue Bond program, established in 2009 under the New Issue Bond Program (NIBP), now accounts for 14% of CalHFA's debt.

As of June 30, 2013, CalHFA had $767 million in GO debt, a 23% decline from the previous fiscal year. Most of this debt ($616 million) is associated with the agency's multifamily III bond indenture. Concurrently with this review of the agency's ICR, we are separately rating the multifamily III indenture under our multifamily pool criteria.

### Variable-rate debt and swaps

CalHFA has issued more variable-rate debt than any other HFA, both in terms of volume and percentage. In our opinion, the risks associated with the heavy use of variable-rate debt and swaps have exposed the agency to a number of challenges since the start of the financial market crisis in 2008. Among them are swap basis mismatch, swap termination payments, counterparty risk, swap collateral postings, the shortage of liquidity, higher liquidity costs, bank bonds, higher reset rates on its variable-rate debt, and adjustments to income resulting from Governmental Accounting Standards Board Statement No. 53 (GASB 53).

CalHFA has spent the past five years responding to these challenges while also implementing numerous initiatives to reduce its variable-rate debt exposure. As of June 30, 2013, the balance of variable-rate debt obligations on CalHFA's balance sheet stood at $2.2 billion, a 38% decrease from $3.3 billion from 2012. This represents 44% of total debt. We believe that the agency's participation in the NIBP has contributed to this reduction in its variable-rate debt exposure. The redemption of outstanding debt under the agency's older indentures has also contributed to the reduction in its variable-rate debt exposure. Since fiscal 2009, CalHFA has redeemed over $5.2 billion in bonds, including $3.2 billion in variable-rate debt. Approximately 88% of the agency's variable-rate debt had been swapped to fixed-rate debt as of June 30, 2013. The agency's efforts to reduce its swap exposure contributed to the decline in CalHFA's net operating losses during the last several fiscal years. The total notional amount of swaps outstanding as of Aug. 1, 2013, was $1.7 billion, down from the original notional amount of $3.6 billion as of Jan. 1, 2010. In fiscal year 2013, $198 million in swaps have been terminated at par (with no payment of any termination fees) by exercising early termination options when possible.

Starting in fiscal 2010, CalHFA made adjustments to its financial statements to reflect GASB 53, which requires swaps to be reported at fair value. Some CalHFA swaps have been designated as ineffective because the bonds with which they are associated have lower balances outstanding than the current swap notional amounts, and because basis swaps are, by definition, considered ineffective. As of June 30, 2013, several percentage of LIBOR swaps were deemed ineffective because they did not pass the GASB 53 effectiveness tests in the current low rate environment. The impact on the agency's fiscal 2013 financial statements was a reduction in equity of $90.8 million, accounted for in the difference between the deferred outflow and deferred inflow of resources.

Following a review of CalHFA's 96 swaps, we believe that CalHFA's swap exposure represents a moderate to high risk to the agency. This assessment reflects our opinion of:

- The risk that CalHFA may have to post additional collateral based on the swaps' rating triggers for collateralization,
- Low counterparty risk,
- Minimal basis risk, and
- Good management oversight.

Because interest rates are generally lower than the rates in effect at inception of the swap agreements, the agency's fixed-payer swap agreements had an aggregate negative fair value of $217.7 million as of June 30, 2013, compared with $324.2 million as of June 30, 2012.

Under its swap agreements, CalHFA is required to post collateral when either of its GO credit ratings, as issued by Standard & Poor's and Moody's, falls below a certain level, and if the fair value of its swaps breach a certain threshold. The agency has benefitted from reduced swap collateral posting requirements over the past year as a result of reduced notional amounts and rising interest rates, having posted $53 million as of August 2013 versus the highest collateral posting of $132 million in February 2012.

With regard to counterparty risk, the agency continues to have what we view as high diversification among its 11 swap counterparties, with none accounting for more than 26% of the swap notional amount. While four of its counterparties are rated below 'A', the minimum rating requirement for swap-dependent issuers, we do not consider the agency's exposure to these counterparties to be a credit risk at this time due to the large negative fair value of the agency's swaps.

Historically, swap termination payments and basis mismatch -- the difference between the actual interest rates paid to bondholders on floating-rate securities and the variable rates received from swap counterparties on swaps -- had a significant impact on CalHFA's profitability. According to management, swap basis mismatch has been in the agency's favor in the current low interest rate environment.

We believe that CalHFA's participation in the U.S. Treasury's Temporary Credit and Liquidity Program and New Issue Bond Program has also eased some of the pressures on its balance sheet and the HMRB indenture. The addition of large amounts of fixed-rate debt under NIBP has helped to reduce CalHFA's variable-rate debt exposure significantly. CalHFA is the largest participant in the TCLP among HFAs.

The agency's participation in TCLP enabled the agency to replace bank liquidity facilities on all of its variable-rate demand obligations (VRDOs) with credit and liquidity facilities from Fannie Mae and Freddie Mac, resulting in the elimination of all CalHFA's bank bonds and a reduction in VRDO remarketing rates.

As of Nov. 1, 2013, management reported remaining TCLP liquidity outstanding of $1.2 billion, 76% of which is under the HMRB indenture. The extension of the TCLP program to Dec. 31, 2015 from Dec. 31, 2012, temporarily alleviates our view of the risks regarding the agency's ability to find replacement liquidity for such a large volume of VRDOs prior to the TCLP's expiration date. In addition, as of Nov. 1, 2013, the agency met its benchmarks through calendar year 2014 and projects that it will have approximately $610 million in TCLP liquidity outstanding in fiscal 2015. The agency has adopted a TCLP exit strategy to include solicitation of new facilities, conversion into index floaters, or refundings to fixed-rate bonds. Management has presented this strategy to the U.S. Treasury and continues to update it given market conditions and trends in financial performance. We will continue to monitor the TCLP and CalHFA's efforts to replace its TCLP facilities prior to the end of 2015.

## Management

We believe the agency's senior team is skilled and experienced in the affordable-housing industry as well as the management of complex financing structures. To provide the financial resources to remain active in California's high-cost real estate market, CalHFA historically issued large amounts of variable-rate debt. In addition, the agency offered nontraditional loan products, such as 40-year and five-year interest-only loans, in order to remain competitive with commercial lenders that were offering more exotic/subprime loans. Some of the unintended and unprecedented consequences of the agency's exposure to variable-rate debt risk began in 2008 upon the onset of the financial market crisis. On top of this, the precipitous decline of the California real estate market led to higher delinquency and foreclosure rates, and ultimately higher losses, on the agency's loan portfolio, particularly among the less traditional loan products.

Amid this unpredictable situation, the agency named a new executive director in 2011, replacing the individual who had served in that capacity since 2008. In addition, a new financing director was named in November 2011 following the retirement of the prior director. Given the issues still facing CalHFA, we expect to become more comfortable with the stability of its top management team as time passes, assuming no further significant changes.

We believe that CalHFA's management has been very proactive in addressing the many challenges it faces. The agency has devoted much effort since 2008 to reducing the volatility and uncertainty of its risk profile. For example, CalHFA has redeemed much of its high interest-rate , bond-insured, and taxable variable-rate bonds; terminated swaps through the payment of early termination fees or the exercise of early termination options; replaced all of its liquidity facilities with federally guaranteed TCLP facilities; generated cash through the securitization and sale of existing loans wrapped with Ginnie Mae guarantees; participated in the NIBP; and implemented loss mitigation and loan modification programs with the intent of reducing delinquencies and foreclosures and assisting in the stabilization of the California real estate market.

Nevertheless, CalHFA's objective of reducing its risk profile remains an ongoing task that, in our opinion, still has an uncertain future. This is largely because we regard some of the challenges still facing the agency, such as the real estate market's slow recovery, the persistent low interest rate environment, and the changing landscape of the municipal bond market, to be variables that remain beyond its control. In our opinion, the progression of these trends will affect CalHFA's overall creditworthiness.

## Economy And Housing Market

California's economy is in the midst of an expansion. At 3.47% and 2.31% in 2012, real state GDP and total employment grew faster than the same measures nationally (2.78% and 1.66%, respectively). Although at 8.9% as of August, the state's unemployment rate is still well above the nation's 7.3%, it has generally been trending downward since early 2012. Should the ongoing federal negotiations result in a more sudden withdrawal of federal funding than currently anticipated under sequestration, broader economic conditions could weaken.

Economic indicators in the state through the first six months of 2013 were relatively favorable. Although we noted that the pace of job growth had slowed, it has remained solidly in positive territory. The state has seen net job growth for 26 consecutive months through August. Its unemployment rate, nevertheless, ticked up in August to 8.9%, partly because of a large number of re-entrants to the labor force. Job growth was strongest in the construction sector (5.0% year-over-year increases), leisure and hospitality (4.1%), and professional and business services (2.5%). Housing permits increased by 72% during the first six months of the year relative to the same period in 2012. But more of the strength was early in the year, with the pace subsiding somewhat in more recent months. This pattern is consistent with the state Department of Finance's May forecast, which called for the annual rate of housing permits to continuing growing but at a slightly slower pace through the final two quarters of the year. One caveat we see, which could render even the state's slower growth optimistic, is the housing sector's susceptibility to leveling off if interest rates were to rise sharply.

According to Global Insight, housing starts bottomed out in 2009 and have increased to 68,000 units in the second quarter of 2013; however, they are still below their pre-recession peaks. They are forecast to reach 165,687 by 2016. Global Insight reports that the home prices are appreciating at a good pace; it ranks the state second in the country in terms of annual home price growth. According to the Federal Housing Finance Agency's purchase-only home prices index, prices were up by 5.6% from the previous quarter and up by 19.1% from the previous year and down by just 1.9% over the past five years. According to the Mortgage Bankers Association, 5.9% of California's subprime loans entered foreclosure (compared with 11.2% nationally), while 1% of prime loans entered foreclosure (compared with 2% nationally) during the third quarter of 2013.

Standard & Poor's anticipates that the 30-year mortgage rate will hover between 4.0% and 4.5% through 2014 in a baseline scenario, or reach 5.40% in an upside scenario. We do not anticipate that CalHFA will issue mortgage revenue bonds for the purpose of originating new loans in the near future. Rather, most near-term issuance, if any, will likely be for refunding or restructuring purposes.

**Table 1**

### Financial Ratio Analysis

| | 2009 | 2010 | 2011 | 2012 | 2013 | 5-Year Average |
|---|---|---|---|---|---|---|
| **Profitability (%)** | | | | | | |
| Return on average assets | (1.45) | (1.71) | (1.06) | (1.14) | (0.92) | (1.26) |
| Return on assets before loan loss provision and extraordinary item | (0.93) | (1.22) | (0.54) | 0.01 | (0.02) | (0.54) |
| Net interest margin | 0.83 | 1.07 | 1.25 | 1.49 | 1.56 | 1.24 |
| **Asset quality (%)** | | | | | | |
| NPAs/total loans and real estate owned | 9.13 | 9.53 | 8.46 | 6.15 | 5.60 | 7.77 |
| Loan loss reserves/total loans | 1.35 | 1.64 | 1.49 | 3.66 | 4.45 | 2.52 |
| Loan loss reserves/NPAs | 14.64 | 16.75 | 17.12 | 58.56 | 79.18 | 37.25 |
| **Leverage (%)** | | | | | | |
| Total equity/total assets | 16.19 | 14.03 | 15.12 | 17.44 | 20.23 | 16.60 |
| Total equity and reserves/total loans | 22.28 | 23.73 | 25.37 | 30.64 | 32.97 | 27.00 |
| **Liquidity (%)** | | | | | | |
| Total loans/total assets | 77.36 | 63.53 | 63.30 | 64.62 | 70.93 | 67.95 |

**Table 2**

### Five-Year Average Financial Ratios for State HFAs (2008-2012)

| | CalHFA | All 'A' HFAs | All 'A+' HFAs | All HFAs |
|---|---|---|---|---|
| **Profitability (%)** | | | | |
| Return on average assets | (1.06) | 0.15 | 0.61 | 0.51 |
| Return on assets before loan loss provision and extraordinary item | (0.49) | 0.41 | 0.74 | 0.72 |
| Net interest margin | 1.12 | 0.46 | 1.15 | 1.09 |
| **Asset quality (%)** | | | | |
| NPAs/total loans and real estate owned | 7.35 | 7.03 | 2.47 | 3.71 |
| Loan loss reserves/total loans | 1.82 | 0.70 | 5.54 | 2.36 |
| Loan loss reserves/NPAs | 26.87 | 10.19 | 224.67 | 1,082.87 |
| **Leverage (%)** | | | | |
| Total equity/total assets | 15.22 | 7.80 | 16.48 | 17.90 |
| Total equity and reserves/total loans | 24.04 | 11.45 | 30.15 | 27.35 |
| **Liquidity (%)** | | | | |
| Total loans/total assets | 69.27 | 72.85 | 67.08 | 72.53 |

**Table 3**

### Trend Analysis

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Total assets ($ millions) | 10,755,198 | 11,245,197 | 9,986,332 | 8,447,039 | 6,748,040 |
| % change | (1.09) | 4.56 | (11.19) | (15.41) | (20.11) |
| Total debt ($ millions) | 8,243,620 | 8,999,672 | 7,942,003 | 6,597,445 | 4,899,971 |
| % change | (4.34) | 9.17 | (11.75) | (16.93) | (25.73) |
| Total equity ($ millions) | 1,741,606 | 1,578,196 | 1,509,529 | 1,473,071 | 1,365,040 |

**Table 3**

| Trend Analysis (cont.) | | | | | |
|---|---|---|---|---|---|
| % change | 20.09 | (9.38) | (4.35) | (2.42) | (7.33) |
| Revenues ($ millions) | 639,087 | 530,021 | 504,199 | 413,892 | 332,735 |
| % change | 9.28 | (17.07) | (1.36) | (17.91) | (19.61) |
| Net income ($ millions) | (157,102) | (188,538) | (116,856) | (105,405) | (69,791) |
| % change | (1262.00) | (20.01) | 43.67 | 9.80 | 33.79 |
| Total loans ($ millions) | 8,320,566 | 7,144,468 | 6,321,105 | 5,458,851 | 4,786,540 |
| % change | (1.35) | (14.13) | (11.52) | (13.64) | (12.32) |
| NPAs ($ millions) | 768,384 | 699,786 | 550,887 | 341,157 | 269,022 |
| % change | 159.06 | (8.93) | (21.28) | (38.07) | (21.14) |
| Loan loss reserves ($ millions) | 112,491 | 117,186 | 94,326 | 199,776 | 213,023 |
| % change | 38.97 | 4.17 | (19.51) | 111.79 | 6.63 |

**Table 4**

| 2013-2014 Industry Economic Outlook for U.S. Public Finance Housing (Dec. 13) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **FORECAST/SCENARIOS** | | | | | | **ACTUAL** |
| | **Downside** | | **Baseline** | | **Upside** | | |
| | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2012** |
| **Macroeconomic Indicators** | | | | | | | |
| 30-yr. fixed mortgage rate (%) | 3.99 | 4.09 | 3.96 | 4.56 | 3.98 | 5.40 | 3.66 |
| 10-yr. Treasury note yield (%) | 2.28 | 2.00 | 2.32 | 2.93 | 2.37 | 4.18 | 1.80 |
| Unemployment rate (%) | 7.47 | 7.59 | 7.45 | 6.87 | 4.35 | 6.05 | 8.08 |
| Real GDP (% change) | 1.53 | 0.58 | 1.68 | 2.55 | 1.78 | 4.13 | 2.78 |
| Total nonfarm payrolls (% change) | 1.61 | 0.75 | 1.64 | 1.63 | 1.66 | 2.46 | 1.70 |
| CPI (% change) | 1.38 | 0.80 | 1.44 | 1.43 | 1.50 | 2.13 | 2.08 |
| Households (mil.) | 121.36 | 122.84 | 121.41 | 123.09 | 121.44 | 123.29 | 119.99 |
| Median single-family existing-home price (000s $) | 194.95 | 190.80 | 195.57 | 201.75 | 195.58 | 202.09 | 175.78 |
| Median new-homes sale prices (000s $) | 260.75 | 261.67 | 264.53 | 270.29 | 264.73 | 263.72 | 242.11 |
| Existing single-family home sales (mil. units) | 4.46 | 4.42 | 4.52 | 4.80 | 4.56 | 5.22 | 4.13 |
| Single-family housing starts (mil. units) | 0.61 | 0.56 | 0.62 | 0.81 | 0.65 | 1.04 | 0.54 |
| Multifamily housing starts (mil. units) | 0.29 | 0.26 | 0.29 | 0.33 | 0.29 | 0.36 | 0.25 |
| Federal government spending | (4.70) | (3.00) | (4.70) | 0.40 | (4.30) | 0.90 | (1.40) |

Standard & Poor's U.S. Economic team's forecasts are constructed using the Global Insight model of the U.S. Economy. Forecasts are from the "U.S. Economic Forecast: Two Economies Diverged in A Wood," published Dec. 5 on RatingsDirect. CPI--Consumer Price Index.

# Related Criteria And Research

## Related Criteria

- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

- USPF Criteria: Single-Family Whole Loan Programs, June 14, 2007
- USPF Criteria: Housing Finance Agencies, June 14, 2007
- USPF Criteria: Affordable Multifamily Housing Pooled Financings, June 13, 2007
- USPF Criteria: New Discounts Reflect Changes To Mortgage Insurer Rating Assumptions In The Municipal Housing Sector (As Of Sept. 2, 2010), Sept. 15, 2010
- USPF Criteria: Assumptions: Update to Cash Flow Analysis for Public Finance Housing Bonds, March 3, 2009
- RMBS Criteria: U.S. Interest Rate Assumptions Revised For May 2012 And Thereafter, April 30, 2012
- General Criteria: Revised Minimum Reinvestment Rate Assumptions For Fixed-Rate U.S. Structured Finance And Municipal Housing Bonds, June 7, 2010

| Ratings Detail (As Of December 19, 2013) | | |
|---|---|---|
| California Hsg Fin Agy hsg prog bnds [unenhanced] | | |
| *Long Term Rating* | A-/Stable | Outlook Revised |