STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

California Housing Finance Agency; Multifamily Whole Loan

Primary Credit Analyst:
Aulii T Limtiaco, San Francisco (1) 415-371-5023; aulii.limtiaco@standardandpoors.com

Secondary Contact:
Karen M Fitzgerald, CFA, New York (1) 212-438-4858; karen.fitzgerald@standardandpoors.com

Table Of Contents

Summary:

California Housing Finance Agency; Multifamily Whole Loan

Credit Profile		
California Hsg Fin Agy multifam hsg rev bnds III (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
California Hsg Fin Agy multifam hsg rev bnds III [unenhanced]		
Long Term Rating	AA/Stable	Upgraded
California Hsg Fin Agy multifam hsg rev bnds III [var rate-GSE TCLP]		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA' from 'A-' on California Housing Finance Agency's (CalHFA) multifamily housing revenue bonds III. At the same time, Standard & Poor's affirmed its 'AA+/A-1+' rating on all of CalHFA's variable-rate demand multifamily housing revenue bonds III, reflecting credit and liquidity support in the form of credit and liquidity facilities provided by Fannie Mae and Freddie Mac. The outlook is stable.

The ratings reflect our view of:

- The very strong credit quality of the multifamily III mortgage loan portfolio;
- CalHFA's increasing fund equity and asset-liability parity over the last five years;
- CalHFA's strong coverage of credit shortfalls through excess assets within the indenture and ability to withstand projected loan losses at the 'AA' level; and
- The investments commensurate with the ratings on the bonds and the sufficiency of revenues to pay debt service and fees when due.

In our opinion, the above strengths are partially offset by continued financial challenges resulting from CalHFA's significant historical use of variable-rate debt and swaps.

We previously rated the bonds based on CalHFA's GO rating (A-/Stable); however, the rating change is based on our view of bonds under our multifamily whole loan criteria.

As of June 30, 2013, approximately $759 million served as collateral for roughly $616 billion in outstanding bonds in the indenture. This includes roughly 273 mortgage loans totaling $713 million also as of June 30, 2013. The vast majority of the loans were permanent loans, with approximately 27.2% benefitting from a form of supplementary security or enhancement such as Federal Housing Administration (FHA) insurance or the FHA risk-share program. No delinquencies were reported by the agency as of Feb. 1, 2013.

We received consolidated cash flows with a basis date of June 30, 2013, incorporating our stresses for public finance housing bonds, indicating there will be sufficient assets and revenues, commensurate with a 'AA' rating, to pay debt service. The opening asset-to-liability position is approximately 123%. In our opinion, the cash flows cover projected shortfalls in a default simulation for the entire portfolio, and, in our view, the resolution still has sufficient excess assets to give bondholders adequate protection.

Standard & Poor's 17g-7 Disclosure Report

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at http://standardandpoorsdisclosure-17g7.com.

Outlook

The stable outlook reflects our view of the parity resolution's strength, sufficient reserves, and overcollateralization to cover potential losses. Given the resolution's historically strong performance and CalHFA's strong managerial capacity, we expect the outlook to remain stable. However, if bond cash flows underperform in relation to baseline asset-to-liability levels after factoring projected credit losses, we could lower the ratings. Conversely, if the performance of loans held as collateral under the bond program improves significantly year-over-year, we may lower projected credit losses and raise the ratings or revise the outlook to positive.

The stable outlook on CalHFA's Temporary Credit and Liquidity Program-supported debt is based on the outlook of the U.S. government.

Related Criteria And Research

Related Criteria

- USPF Criteria: Affordable Multifamily Housing Pooled Financings, June 13, 2007
- 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
- U.S. Government Support In Structured Finance And Public Finance Ratings, Sept. 19, 2011
- 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 23, 2013)		
California Hsg Fin Agy multifam hsg rev bnds III (AMBAC)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
California Hsg Fin Agy multifam hsg rev bnds III [FGIC]		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

1231977 | 301908238

Ratings Detail (As Of December 23, 2013) (cont.)		
California Hsg Fin Agy multifam hsg rev bnds III [Natl Pub Fin Gty Corp]		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.