MOODY'S
INVESTORS SERVICE

Rating Update: Moody's upgrades rating for California Housing Finance Agency's Residential Mortgage Revenue Bonds 2009 Series A-5 to Aa3 from A2, outlook positive

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Approximately $280 million in debt affected

CALIFORNIA HOUSING FINANCE AGENCY
Local Single-Family Housing
CA

NEW YORK, April 01, 2015 --Moody's Investors Service has upgraded the rating on California Housing Finance Agency's Residential Mortgage Revenue Bonds, 2009 Series A-5 to Aa3 from A2. The outlook on the rating is positive.

SUMMARY RATING RATIONALE

Moody's Investors Service has upgraded the rating of CalHFA's Residential Mortgage Revenue Bonds 2009 Series A-5 to Aa3 from A2 based on the solid improvement in the program's financial performance as demonstrated by an adjusted program asset-to-debt ratio (PADR) of 1.165, a decrease in the overall delinquencies for the underlying single family loans, and cash flow projections demonstrating the ability to repay debt under stress scenarios.

OUTLOOK

The outlook is positive based on favorable trends in loan performance, an improving state economy, and strong management. The outlook also reflects further improvement in the PADR.

WHAT COULD MAKE THE RATING GO UP

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

Continued improvement in performance of mortgage loans

Continued strong performance in stress cash flow projections

WHAT COULD MAKE THE RATING GO DOWN

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

Decline in mortgage loan performance, with increased delinquencies and foreclosures leading to increasing losses

A decline in the California housing market, leading to house price declines that could increase losses on foreclosures

STRENGTHS

Solid financial performance, including asset-to-debt ratio and profitability

Single family mortgage loan quality: decreasing delinquencies point to diminished risk of loan losses going forward

Overcollateralization assets include FHA-insured multifamily mortgage loans, diversifying and strengthening asset quality

Cash flow projections demonstrate ability to repay debt under stress scenarios appropriate to the rating assigned

Favorable debt structure: All fixed rate; federal NIBP program provided low cost of funds

CHALLENGES

Continued potential for losses from loan delinquencies and foreclosures

PMI on 17% of loans backed by reinsurance from Genworth Mortgage Insurance Corporation (GMICO, Ba1 positive)

Relatively new indenture with only two full fiscal years of audited performance

RECENT DEVELOPMENTS: Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

LOAN PORTFOLIO: Improving Single Family Mortgage Performance Reduces Potential Losses

The improved performance of the single family mortgage loans that constitute the primary source of repayment for the bonds is a principal factor supporting the rating . The Agency reports that serious delinquency rates (loans 90+ days delinquent plus loans in foreclosure) for the pledged loans declined from 4.94% at 12.31.13 to 3.41% at 12.31.14. Improvements in the California housing market are reflected in smaller losses to CalHFA on the sale of REOs. These trends reduce our assessment of potential losses from mortgage delinquencies and foreclosures going forward.

Mortgage insurance further contributes to loan security. Thirty-eight percent of the loans have insurance from FHA, 17% have private mortgage insurance (PMI), and 22% are uninsured but have loan to value ratios below 80%. The PMI loans benefit from reinsurance provided by Genworth Mortgage Insurance Corporation (GMICO, Ba1, positive outlook). GMICO reinsurance is subject to a significant haircut in our analysis based on GMICO's rating.

Although mortgage performance is improving, the Agency has experienced high levels of losses on single family loans over the past several years, and we expect continued losses (although at diminished levels) going forward. Delinquency levels continue to be above benchmark levels for California: the Mortgage Bankers' Association reported 2.82% seriously delinquent for FHA fixed rate loans in Q4 2014.

FINANCIAL POSITION AND PERFORMANCE: Over-Collateralization And Profitability Support Bond Repayment

The strong financial performance demonstrated in 6/30/14 fiscal year is a key driver of today's upgrade. The asset to debt ratio, after Moody's adjustments (PADR) was 1.165, up from 1.122 at 6/30/13. The mortgage and MBS assets constitute primarily single family mortgage loans (91% of principal), as well as single family mortgage-backed securities (MBS) (3.2%), multifamily mortgage loans (4%) and multifamily MBS (1.8%). Six of the nine multifamily mortgage loans benefit from insurance from FHA, which provides strong protection against losses. The diversified asset base contributes to bond security.

Total adjusted revenues for the 6/30/14 fiscal year were $19 million, with net revenues of $3.7 million demonstrating strong profitability of 19.29%, providing strong coverage for bond repayment.

Liquidity: Cash flow projections demonstrate that the program exhibits sufficient liquidity to meet all debt service obligations.

LEGAL FRAMEWORK, COVENANTS, AND DEBT STRUCTURE: Cash Flow Projections Withstand Stress Scenarios

Debt Structure: The total outstanding debt as of February 1, 2015 is $279,525,000, which is all fixed rate.

Debt-Related Derivatives: N/A

Pensions and OPEB: Pensions and OPEB are not a major factor in the methodology.

We have reviewed updated cash flow projections demonstrating that payments from pledged assets provide sufficient revenues to repay bonds and maintain parity under a variety of scenarios. The cash flows include low prepayment (30% PSA) and rapid prepayment (three-year average life scenarios), as well as scenarios that include losses on single family loans and defaults and insurance recovery on FHA -insured multifamily loans.

MANAGEMENT AND GOVERNANCE:

Since 2008, CalHFA's management has taken effective steps to improve the Agency's finances and demonstrated management focus on reducing financial stress. The Agency has substantially enhanced its single family asset management function and reduced timelines for moving defaulted loans through the pipeline. The Agency has also worked proactively to improve the Agency's balance sheet to address the combined effect of the mortgage decline and the financial crisis. Actions have included mortgage loan sales, bond purchases at a discount, refinancing of multifamily projects to reduce risk to the Agency, negotiation of more favorable terms for swap collateral posting, refunding bonds to reduce variable rate debt, and exercise of par swap termination options to reduce exposure. The Agency has taken steps to revive its lending programs, including reopening its mortgage origination business (through securitization of whole loans) and increasing its focus on multifamily loans.

KEY STATISTICS:

- Total Bonds Outstanding (as of February 1, 2015): $279,525,000

- Asset-to-Debt Ratio (as of June 30, 2014): 1.165

- Profitability (as of June 30, 2014): 19.29%

- Delinquent Loans: 3.41% as of 12/31/14 (single family 90 days+ and loans in foreclosure)

- Variable rate debt as % of bonds outstanding: N/A

OBLIGOR PROFILE

The 2009 Series A-5 Bonds (the Bonds) were financed under the federal New Issue Bond Program (NIBP) that was created by the federal government in 2009 to provide low-cost fixed rate financing for state housing finance agencies. The Bonds were converted to long-term maturities under a Series Indenture in May 2012 to refund bonds previously issued under another program of the Agency. Assets previously pledged to the refunded bonds were pledged to the Series Indenture, along with other assets that the Agency contributed to provide overcollateralization.

LEGAL SECURITY

The bonds are special limited obligations of the Agency, payable solely from the revenues, reserves, assets and properties pledged under the Indenture, including the single family mortgage loans financed under the Indenture and certain reserve accounts. All of the mortgage loans and other assets are pledged to secure all of the bonds, equally and ratably. The Series Indenture provides for a Debt Service Reserve required to be funded at a minimum level of 3% of the principal balance of mortgage loans.

The bonds are not back by the State of California.

USE OF PROCEEDS: Not applicable.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Housing Finance Agency Single Family Programs published in Febuary 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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.

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