STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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California Housing Finance Agency; Single Family Whole Loan

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California Hsg Fin Agy home mtg rev bnds [unenhanced]		
Long Term Rating	A/Stable	Upgraded
California Hsg Fin Agy home mtg rev bnds [Natl Pub Fin Gty Corp]		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'A' from 'A-' on California Housing Finance Agency's (CalHFA) bonds issued under its home mortgage revenue bond (HMRB) indenture. In addition, we affirmed the 'AA+/A-1+' rating on CalHFA's variable-rate demand bonds in the indenture. The 'AA+/A-1+' rating reflects the current 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 opinion of the following strengths:

- Trend of increasing profitability, equity, and parity in the indenture in the last three years, with fiscal year 2014 parity at 111.74%, the highest it has been since the credit crisis;
- Consolidated indenture cash flows that demonstrate sufficient assets and revenues to absorb projected loan losses at the 'A' level;
- Significant reduction in the indenture's variable rate and swap exposure;
- Replacement of all expiring Temporary Credit and Liquidity Program (TCLP) credit and liquidity facilities with bank letters of credit, totaling $510.7 million, anticipated to be in effect on July 22, 2015, thereby mitigating CalHFA's exposure to higher fees and higher bank bond interest rates;
- Significant declines in CalHFA's interest-only loan portfolio, compared to historical figures, with only seven nonamortizing interest-only loans totaling $1.8 million, as of April 2015; and
- The more than 2% decline in delinquency and foreclosure rates from 2013 to 2014, as a result of improving California real estate market conditions and assistance from various loan modification programs.

The above factors are partly offset by our opinion of the following weaknesses:

- A loan portfolio that we continue to consider to be of moderate to high risk, despite its improved performance, with approximately 32% of loans insured through a reinsurance contract with Genworth Mortgage Insurance Corp. (BB-/Developing) with the California Housing Loan Insurance Fund (CaHLIF; not rated); and
- A high level of nonperforming assets relative to the state and CalHFA's peers.

Outlook

The stable outlook reflects our expectation that the loans and other collateral will perform sufficiently well, based on the agency's adequate asset-to-liability position and CalHFA's proactive management of its single-family portfolio and debt structure. If the issuer is able to demonstrate sufficient excess assets to cover potential liquidity and credit shortfalls under various prepayment scenarios at the 'AA' level without additional support from external sources, and if fund balances improve, positive rating action may be warranted. Conversely, if the indenture's fund balance declines considerably or our loss assumptions increase, we may consider a negative rating action.

The stable outlook on CalHFA's TCLP-supported debt is based on the outlook of the U.S. government.

Assets

We have historically considered CalHFA's HMRB loan portfolio to be of higher risk compared to those of other HFAs, due to the relative concentration of speculative-grade mortgage insurance and, to a lesser extent, interest-only and 40-year loans. However, the proportion of interest-only and 40-year loans in the portfolio has significantly declined in the last few years.

As of June 30, 2014, there were approximately $2.3 billion in loans outstanding under the indenture. Approximately 32% of loans were conventional loans insured by an unrated mortgage insurer, CaHLIF. CaHLIF has a reinsurance contract with Genworth Mortgage Insurance Co. However, since neither CaHLIF nor Genworth currently carry investment-grade ratings, we no longer assume any recoveries from CaHLIF or Genworth in accordance with our criteria. As of June 30, 2014, there was no cash or investments remaining on CaHLIF's balance sheet to pay outstanding claims. The agency established a reserve to cover the anticipated shortfall for the loans insured by CaHLIF in an amount of $15.7 million as of June 30, 2014. Although we do not consider recoveries from Genworth based on our criteria, according to the agency, Genworth has continued to make full claim payments.

Overall, in addition to the conventionally insured loans, approximately 29% of single-family loans were Federal Housing Administration-insured, 37% were uninsured, and 1% were Veterans Administration- or Rural Development-guaranteed as of June 30, 2014.

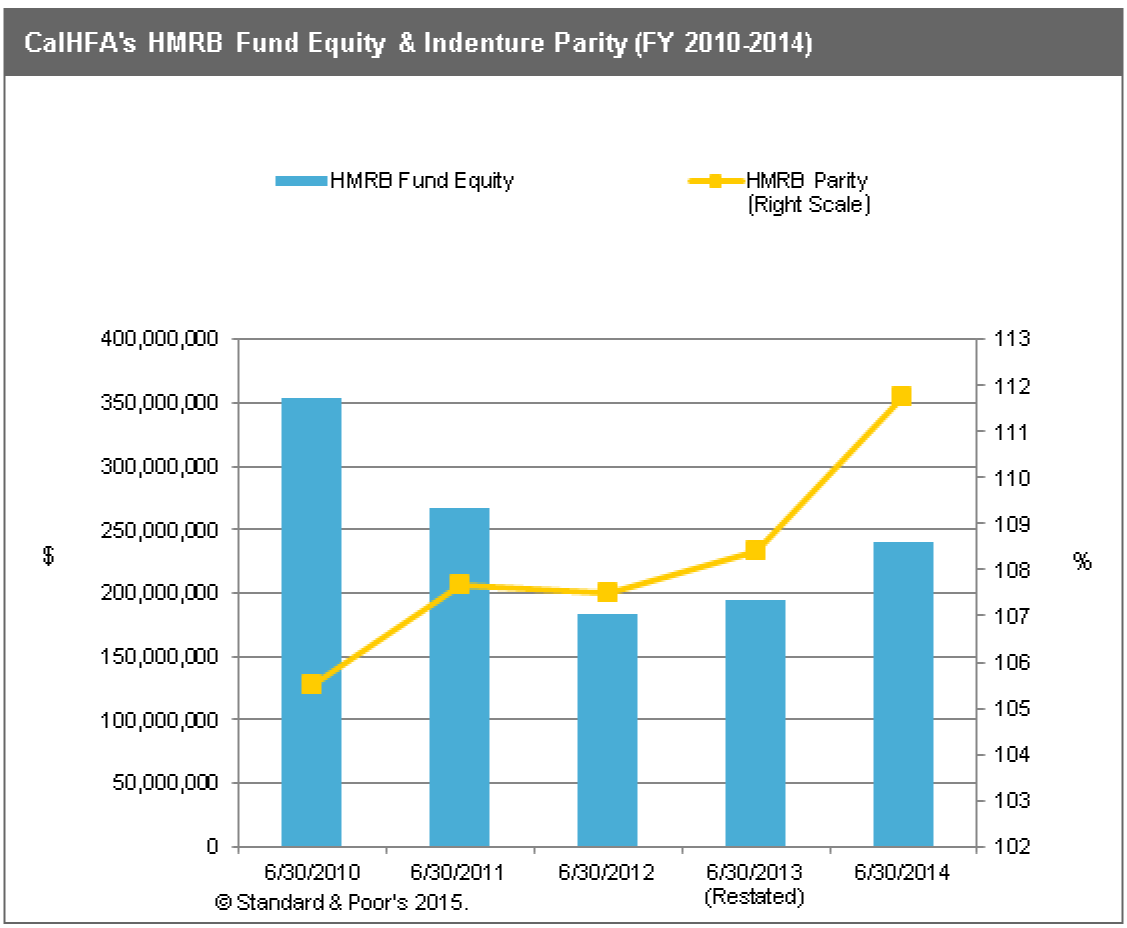
Approximately 3% of loans had 40-year terms rather than the standard 30-year term. In addition, approximately 0.22% of CalHFA's single-family loan portfolio consists of interest-only loans (consisting of both insured and uninsured loans), on which interest is paid for the first five years and which then amortize over the next 30 years with the same interest rate, Over the past few years, the interest-only portfolio has almost fully converted to amortizing loans. As of April 30, 2015, seven loans totaling $1.8 million were interest-only nonamortizing. These loans were still outstanding mainly due to loan modifications. This compares with 36 nonamortizing interest only loans totaling approximately $5 million in 2014 and more than $1.3 billion in 2010.

The portfolio's delinquency and foreclosure rates have shown a declining trend 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 the fourth quarter of 2014, CalHFA reported a 60-day-plus delinquency and foreclosure rate of 6.08% for loans under the HMRB resolution, down from 9.14% in the 4th quarter of 2013. Interest-only loans and 40-year loans have continued to suffer higher delinquency and foreclosure rates, however, the majority of interest only loans are now fully amortizing and 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 72 units, as of June 30, 2014, from 132 units in 2013 and the high of 1,110 units in 2011. REO properties decreased by approximately 40% to $15.1 million during fiscal 2014, compared with $28.7 million in fiscal 2013.

Financial strength

The HMRB indenture's equity position has improved over the last three year, mainly due to reductions in debt outstanding. This led to an improvement in asset coverage (parity) in the HMRB indenture during this time period as well (see chart 1). The indenture's net improved by 27%, from $188.1 million in fiscal 2013 to $240.1 million in fiscal 2014. Indenture parity grew to approximately 111% in fiscal 2014 from 108% in fiscal 2013, and the low of 105% in fiscal 2010. In addition, the indenture experienced a profit of $44 million in fiscal 2014, after transfers, an increase of $78 million compared to its $34 million loss in the prior fiscal year.

Chart 1



As noted above, we currently do not assume recoveries from CaHLIF or Genworth due to the lack of a rating for the former and a non-investment grade rating for the latter. Based on our methodology, our projected loan losses (net of insurance recoveries) under HMRB are currently $147 million, or 6.51% of loans as of fiscal year 2014. This compares to our estimated losses of 8.91% of loans as of fiscal year 2013.

We received cash flows with a basis date of June 30, 2014. The cash flows included variable-rate debt and reinvestment assumptions consistent with our current criteria, at the 'A' rating level. Previously, the agency has deposited funds into the indenture to cover the projected losses at various prepayment speeds; however, the indenture has exhibited healthier financial strength as of fiscal 2014.

In all of the various prepayment scenarios, there were sufficient excess assets and revenues available to absorb the loan losses and still make timely payments of debt service. Beginning asset-to-liability parity as of June 30, 2014, was 111.7%, with asset coverage of approximately $274 million. Based on these cash flows, we believe that at this time that there are sufficient excess assets under the HMRB resolution to cover our current projection of loan losses at the 'A' rating level.

Compared with Mortgage Bankers Assn.'s statistics for the state of California, CalHFA's delinquency and foreclosure rates have been higher for the past 26 consecutive quarters (through Dec. 31, 2013), assuming a similar composition of prime loans, although the gap appears to be narrowing.

All loans under CalHFA's HMRB indenture are required to carry at least 50% insurance coverage on the balance of each loan. Under the terms of the conventional loan insurance provided by CaHLIF, CaHLIF covered the first 35% of mortgage principal, plus lost interest and foreclosure costs, upon the filing of insurance claims for defaulted HMRB loans. CalHFA covered the remaining 15% for CaHLIF-insured loans, plus the full 50% for uninsured loans, through "gap" insurance, up to a cap of $135 million. In August 2011, the agency reached the cap and the aggregate total of $135 million in gap claim payments was made so that any future losses that otherwise would have been covered by gap insurance are now being absorbed by the HMRB resolution. CalHFA has a gap insurance loss reserve, in addition to a reserve to cover the anticipated shortfall for loans insured by CaHLIF, which are both held under the HMRB indenture. The reserve to cover shortfalls insured by CAHLIF was $15.7 million as of June 30, 2014.

As of June 30, 2014, the net allowance for loan loss reserve under the HMRB indenture was $39.4 million in fiscal 2014, a decline from $69.6 million in fiscal 2013. During the last quarter of fiscal 2014, CalHFA's fiscal 2013 and fiscal 2012 audited financials were restated to correct a previous error overstating the allowance by approximately $39.5 million in the HMRB indenture.

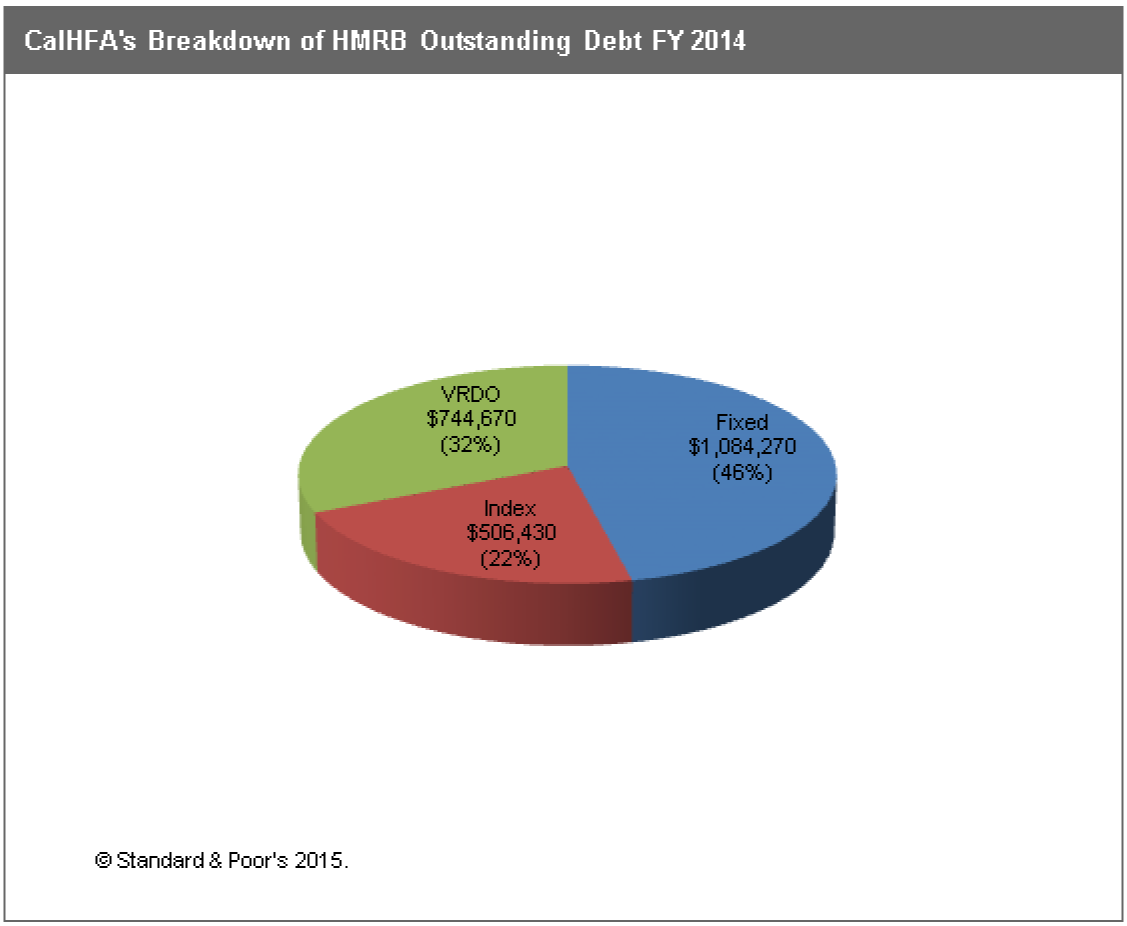
Reserves And Investments

As of June 30, 2014, there was approximately $76.7 million on deposit in reserve funds under the HMRB indenture, or approximately 3.5% of loans outstanding. These reserves were part of $393 million in non-mortgage assets contained in HMRB, which includes guaranteed investment contracts, federal agency securities, and cash holdings. The majority (65.7%) of CalHFA's investments under the HMRB indenture were invested in the state's Surplus Money Investment Fund, with other funds invested in investment agreements (14%), federal agency securities (20%), and money market funds or certificates of deposits (0.3%). All of HMRB's investment agreements are with providers rated 'A' or above.

Debt

As of June 30, 2014, there were $2.3 billion of bonds outstanding under the HMRB indenture, a 23% decline from $3.02 billion as of June 30, 2013. Of this amount, $1.251 million, or approximately 53.5%, was variable-rate (see chart 2.) Of the variable-rate bonds outstanding as of June 30, 2014, approximately $1.024 billion, or 82%, were hedged with interest rate swaps. As of June 1, 2015, the agency has further reduced its outstanding HMRB debt by 20% to $1.866 billion.

Chart 2



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, and higher reset rates on its variable-rate debt.

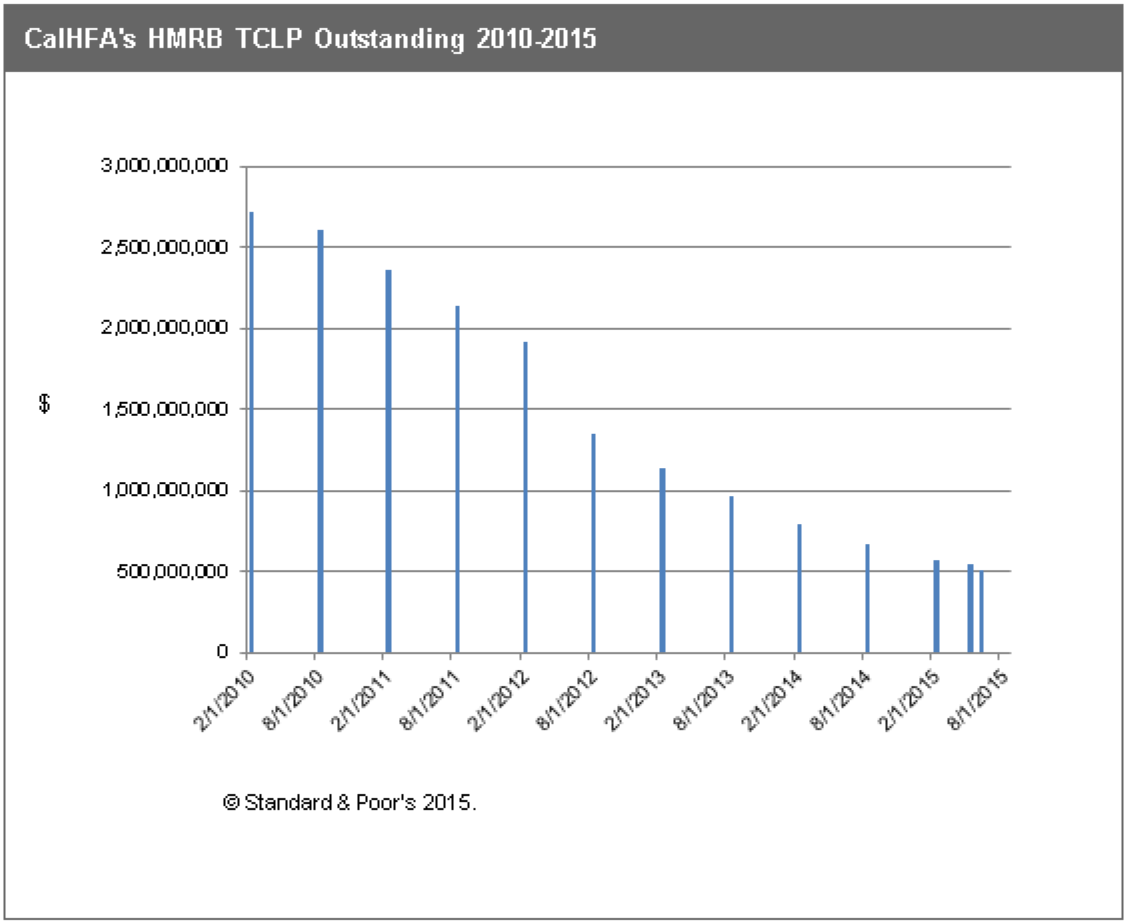
CalHFA has spent the past six years responding to these challenges while also implementing numerous initiatives to reduce its variable-rate debt exposure under its HMRB indenture. In addition, CalHFA has reduced its swap exposure by terminating swaps in the HMRB indenture, exercising its cancellation options as they become available. Total notional amount of swaps outstanding in the HMRB indenture as of June 30, 2014, was $1.024 billion, down from $1.377 billion in 2013, and significantly lower than the original notional amount of $2.9 billion.

TCLP and New Issue Bond Program (NIBP)

We believe that CalHFA's participation in the U.S. Treasury's TCLP and NIBP eased some of the pressures on its balance sheet and the HMRB indenture over the last six years. CalHFA was 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 all of CalHFA's bank bonds and reduction in VRDO remarketing rates. In 2013, the agency adopted a TCLP exit strategy to include solicitation of new facilities, conversion into index-floaters or refundings to fixed rate bonds, given the program's expiration date of December 2015. Management presented this strategy to Treasury and continued to update it over the last several years, given market conditions and trends in financial performance. To date, the agency has surpassed its benchmarks of outstanding liquidity amounts established by the renewed TCLP program in all of its indentures.

As of June 30, 2014, management reported remaining TCLP liquidity outstanding in the HMRB indenture of $744 million. As of June 1, 2015, the agency replaced all of its TCLP outside of the HMRB indenture, and reported $510.7 million of TCLP left in its HMRB indenture, 100% of which is anticipated to be replaced with three-year letter of credit facilities from four banks on July 22, 2015. In our view, this is a significant milestone in the agency's financial recovery and speaks to the deliberate planning and strengths of the agency's management and strategy (see chart 3).

Chart 3



Economic Indicators

California's economy is large, dynamic, and capable of faster-than-average growth but prone to periodic downturns that can be severe. The current economic expansion is mature but shows little sign of fatigue. On the contrary, several indicators suggest an economy that is gaining momentum. In particular, job growth in the state is outpacing that of the nation, positioning its economy for correspondingly faster overall economic growth.

According to IHS Global Insight, as of February 2015, the nonfarm payroll grew 3.1% when compared with the same time in 2014, adding 476,000 new jobs. The construction, trade, and service, leisure and hospitality services, professional and business sectors have shown tremendous growth. The state's unemployment rate is 6.7%, the lowest ever since early 2008. This is majorly due to continuous rise of international in-migration in the state. Global Insight forecasts the state's economy to expand moderately, slightly outpacing the nation as it adds new jobs at an average of 1.7% per year through 2019.

Still, the certain structural features of California's economy threaten to impede its longer-term growth prospects. For example, notwithstanding that California boasts strong income and wealth indicators -- per capita income is 109% of the nation -- it's also plagued by above-average poverty. After accounting for the cost of living, the state's poverty measures look even worse. This is evident in the state's real estate market where a chronic shortage of affordable housing, especially in its large metropolitan areas, undercuts the state's business climate. Other long-term challenges facing the state include its strained water supply and delivery capabilities. Insufficient and inadequately maintained infrastructure, especially for transportation, could also undermine the state's long-term economic growth potential.

On the housing front, the state still has a long road to recovery. Housing starts have been slowly recovering from their slide after the bust; however, at less than 70,000 units in the second quarter of 2014, they remain well below their prerecession peak of more than 200,000 units in 2005. According to the Federal Housing Finance Agency (FHFA) purchase-only home prices index, prices in the state began to rise in the last quarter of 2011. During the first quarter of the year, according to the FHFA prices in California were up 2.4% quarter on quarter and 26.6% from year-earlier levels. This ranked the state third in the country in terms of annual home price appreciation, behind only Nevada and the District of Columbia. In some California metros rapid home price increases have been in part driven by investor purchases, which are depleting inventories of lower priced homes. This is especially true in formerly high-growth but recently high-distress areas, such as Los Angeles and Sacramento. In these areas investors, both institutional and individuals, have flooded the market, aggressively buying homes, often with cash, to use for rental purposes. These investor purchases have resulted in rapid price increases in the lower end of the market especially.

While we believe that CalHFA's HMRB indenture has turned a corner on the road to recovery, we do not anticipate that CalHFA will issue mortgage revenue bonds under this indenture 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, while the single-family market and interest rates continue to recover.

Related Criteria And Research

Related Criteria

- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- USPF Criteria: Single-Family Whole Loan Programs, June 14, 2007
- USPF Criteria: Housing Finance Agencies, June 14, 2007
- Criteria: Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured And Public Sector Finance And Covered Bonds, Dec. 7, 2014
- USPF Criteria: Assumptions: Update to Cash Flow Analysis for Public Finance Housing Bonds, March 3, 2009
- Structured Finance Criteria: U.S. Interest Rate Assumptions Revised For May 2012 And Thereafter, April 30, 2012
- Criteria: U.S. Government Support In Structured Finance And Public Finance Ratings, Sept. 19, 2011
- Structured Finance Criteria: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria: Methodology For Revisions To Standard & Poor's Stressed Reinvestment Rate Assumptions For Fixed-Rate U.S. Debt Obligations, May 20, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014

Ratings Detail (As Of July 2, 2015)		
California Hsg Fin Agy home mtg rev bnds [var rate-GSE TCLP]		
Long Term Rating	AA+/A-1+/Stable	Affirmed

Ratings Detail (As Of July 2, 2015) (cont.)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
California Hsg Fin Agy home mtg rev bnds [Ambac]		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
California Hsg Fin Agy home mtg rev bnds [FGIC]		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.