

Lending with  
**PROMISE**



CALIFORNIA HOUSING FINANCE AGENCY  
2003-2004 ANNUAL REPORT

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Back Cover CalHFA Staff



Sacramento Office

P.O. Box 4034 • Sacramento, CA 95812 • (916) 322-3991

Los Angeles Office

100 Corporate Pointe, Suite 250 • Culver City, CA 90230 • (310) 342-1250

Marketing Information

24-Hour Toll Free (800) 789-2432

e-mail: [marketing@calhfa.ca.gov](mailto:marketing@calhfa.ca.gov)

Additional information is provided in the

“Audited Financial Statements”

(Available on CD by request)

and “Statistical Supplement” to the

California Housing Finance Agency's

2003-2004 Annual Report



## Chairman and Executive Director's Message

AT CALHFA,  
WE WORK WITH OUR  
PARTNERS TO DELIVER  
ON OUR PROMISE  
AND OUR MISSION  
TO PROVIDE SAFE,  
DECENT, AND  
AFFORDABLE HOUSING  
TO OUR  
FELLOW  
CALIFORNIANS.


**L**ike many previous years in CalHFA's 29-year history, the Fiscal Year 2003-2004 could be summed up by one word: *change*. There was change in the Governor's Office, change and uncertainty with the war on terrorism, and change in the economy, in anticipation of the Federal Reserve Board increasing interest rates after a long period of stability. But during all this unrest, one thing at CalHFA did not change: *our promise*. We promised to provide more homeownership opportunities for first-time homebuyers, and we did. We promised to support affordable rental housing and multifamily construction and preservation, and we did. We promised to expand our outreach and marketing efforts to leverage the collective strengths of the Agency and our partners, and we did.

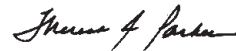
In anticipation of rising rates, rising home prices, and rising concern about the cost of living and the budget deficit, CalHFA rose to the occasion in a number of ways. Our Homeownership Division exceeded its goal of generating over \$1 billion in loans to first-time homebuyers for the fifth consecutive year. More meaningfully, this translates to over 6,600 new homeownership opportunities for low to moderate income families who reflect California's diversity, despite today's skyrocketing housing market. Our Multifamily Division experienced a record-breaking year, with the growth of its Construction

Lending Program increasing by 400%. In total, the Agency closed Multifamily Loans with commitments totaling \$240 million. The Mortgage Insurance Division significantly expanded its product development and outreach efforts, working with other affordable housing partners to increase homeownership opportunities through the introduction of innovative programs offered at affordable rates.

Despite our constantly changing environment, our commitment to the business of affordable housing is unwavering. In the year ahead, CalHFA's business plan proposes a total of \$1.25 billion in homeownership first mortgage lending, \$260 million in mortgage insurance activity, and \$351 million for multifamily lending.

At CalHFA, we will strive to make every month "Affordable Housing Month" as we work with our partners to deliver on our promise—and our mission—to provide safe, decent, and affordable housing to our fellow Californians. We are extremely proud to highlight our specific accomplishments to you in this annual report.

  
John A. Courson  
Chairman of the Board

  
Theresa A. Parker  
Executive Director



## Meet the Members of the Board

PICTURED FROM LEFT  
TO RIGHT:

JOHN A. COURSON  
CALHFA BOARD CHAIR  
PRESIDENT/CEO  
CENTRAL PACIFIC MORTGAGE

\*JAN BOEL  
INTERIM DIRECTOR  
OFFICE OF PLANNING &  
RESEARCH  
STATE OF CALIFORNIA

EDWARD M. CZUKER  
PRESIDENT  
E.M.C. FINANCIAL CORPORATION

JACK SHINE, CHAIRMAN  
AMERICAN BEAUTY  
DEVELOPMENT CO.

EDWARD W. BAYUK  
EXECUTIVE VICE PRESIDENT  
COACHELLA PETROLEUM INC.

LUCETTA DUNN, DIRECTOR  
DEPARTMENT OF HOUSING &  
COMMUNITY DEVELOPMENT  
STATE OF CALIFORNIA

PETER N. CAREY  
PRESIDENT/CEO  
SELF-HELP ENTERPRISES

JOHN G. MORRIS, PRESIDENT  
JOHN MORRIS, INC.

SUNNE WRIGHT McPEAK  
SECRETARY  
BUSINESS, TRANSPORTATION &  
HOUSING AGENCY  
STATE OF CALIFORNIA

\*THERESA A. PARKER  
EXECUTIVE DIRECTOR  
CALIFORNIA HOUSING  
FINANCE AGENCY

NOT PICTURED: PHIL ANGELIDES, STATE TREASURER, OFFICE OF THE STATE TREASURER, STATE OF CALIFORNIA; \*DONNA ARDUIN, DIRECTOR, DEPARTMENT OF FINANCE, STATE OF CALIFORNIA  
\*NON-VOTING

CALHFA SENIOR STAFF AT WORK



JACKLYNE RILEY  
DIRECTOR OF ADMINISTRATION



BRUCE GILBERTSON  
COMPTROLLER



THOMAS HUGHES  
GENERAL COUNSEL



GERALD SMART  
CHIEF, HOMEOWNERSHIP PROGRAMS



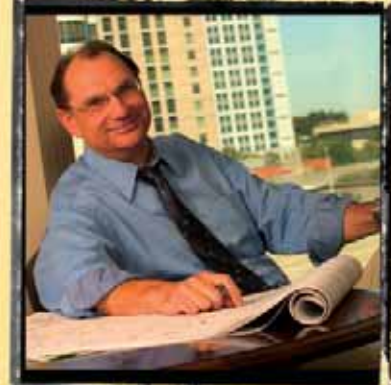
THERESA PARKER  
EXECUTIVE DIRECTOR



DOMINICK MAIO  
CHIEF INFORMATION OFFICER



RICHARD LAVERGNE  
CHIEF DEPUTY DIRECTOR



LINN WARREN  
DIRECTOR OF MULTIFAMILY PROGRAMS



WAYNE BELL  
DIRECTOR OF HOMEOWNERSHIP PROGRAMS

2003/2004  
ANNUAL  
REPORT



KENNETH WILLIAMS, CHIEF  
HOMEOWNERSHIP, SPECIAL PROGRAMS



MARGARET ALVAREZ  
CHIEF, ASSET MANAGEMENT



KENNETH GIEBEL  
DIRECTOR OF MARKETING



NANCY ABREU, DIRECTOR OF  
MORTGAGE INSURANCE



KEN CARLSON  
DIRECTOR OF FINANCING



DIANE RICHARDSON  
DIRECTOR OF LEGISLATION



CALIFORNIA HOUSING  
FINANCE AGENCY'S  
MISSION IS TO FINANCE  
BELOW-MARKET RATE LOANS  
TO CREATE SAFE, DECENT, AND  
AFFORDABLE RENTAL HOUSING  
AND TO ASSIST FIRST-TIME  
HOMEBUYERS IN ACHIEVING  
THE DREAM OF  
HOMEOWNERSHIP.

## HOMEOWNERSHIP



**I**n Fiscal Year 2003-04, the Homeownership Division fulfilled its promise by exceeding its goal to increase the number of affordable housing opportunities for low and moderate income first-time homebuyers. In addition to introducing and marketing programs related to Proposition 46—The Housing and Emergency Shelter Trust Fund Act, which was approved by voters in November 2002—the Division also made significant strides in its outreach efforts directed to lenders, housing partners, and consumers. The Division attended hundreds of housing forums and homebuyer events, gave presentations, and conducted lender training sessions across the State. In addition, CalHFA developed a series of broadcast public service announcements for both English and Spanish audiences, promoting the benefits of homeownership and the innovative loan programs offered by CalHFA. These collective efforts translated into more success stories for each of our programs and a heightened awareness of CalHFA's role in affordable housing. The highlights of these efforts are described below.

### ACHIEVEMENTS 2003-04

- ❖ Exceeded our goal of generating over \$1 billion of below market interest rate loans to first-time homebuyers for the fifth consecutive year. The Agency purchased 6,668 first mortgage loans for \$1.24 billion, surpassing by 5% the \$1.175 billion goal established by the Agency's Five-Year Business Plan for Fiscal Year 2003-04.
- ❖ Increased the percentage of loans to low income households (with incomes of 80% or less than the area median) to 61% of all CalHFA first-time homebuyer loans, up from 59% the previous year.
- ❖ Sustained high level of emerging market customer base with traditionally underserved borrowers accounting for over 70% of all first mortgage loans.
- ❖ Provided much-needed homeownership opportunities to designated high cost areas\* through improvements in lending rates and down payment assistance which resulted in the purchase of \$838 million in loans.
- ❖ Established new partnerships to create greater affordable housing opportunities for Californians.

*\*High Cost Area Home Purchase Assistance Program eligible counties are:  
Alameda, Contra Costa, San Diego, San Francisco, San Mateo, Santa Clara, Sonoma,  
and Ventura.*

### PROMISES FOR 2004-05

- ❖ The Five-Year Business Plan for the Homeownership Division calls for over \$7.2 billion in funding for low and moderate income first-time homebuyers with nearly \$1.35 billion targeted for Fiscal Year 2004-05.

THE HOMEOWNERSHIP

DIVISION FULFILLED

ITS PROMISE BY

EXCEEDING ITS GOAL

TO INCREASE THE

NUMBER OF

AFFORDABLE HOUSING

OPPORTUNITIES

FOR LOW AND

MODERATE INCOME

FIRST-TIME

HOMEBUYERS.

- ❖ Continue to provide innovative products and down payment assistance programs that promote homeownership. Assist Multifamily Programs in expanding the supply of affordable single family housing stock in California by providing homeownership financing under a proposed Housing Development Loan Program.

Under an historic partnership with the **Southern California Home Financing Authority (SCHFA)**, the Agency purchased 359 loans for \$83.2 million, providing lower interest rate loans to hundreds of working families in Los Angeles and Orange counties for the purchase of new and existing homes.

The **CalHFA Housing Assistance Program (CHAP)** originated 5,456 second mortgages totaling \$33 million. CHAP second mortgages continue to be a significant factor in bridging the affordability gap for thousands of first-time homebuyers. Over 80% of all CalHFA first mortgages have a CHAP second mortgage loan, up from 76% the prior year.

Under the **High Cost Area Home Purchase Assistance Program (HiCAP)**, the Agency purchased a total of 1,057 mortgage loans for \$26.4 million, and increased the number of eligible counties from six to eight. The program offers a junior mortgage up to \$25,000 in down payment assistance with a below market interest rate behind a CalHFA first.

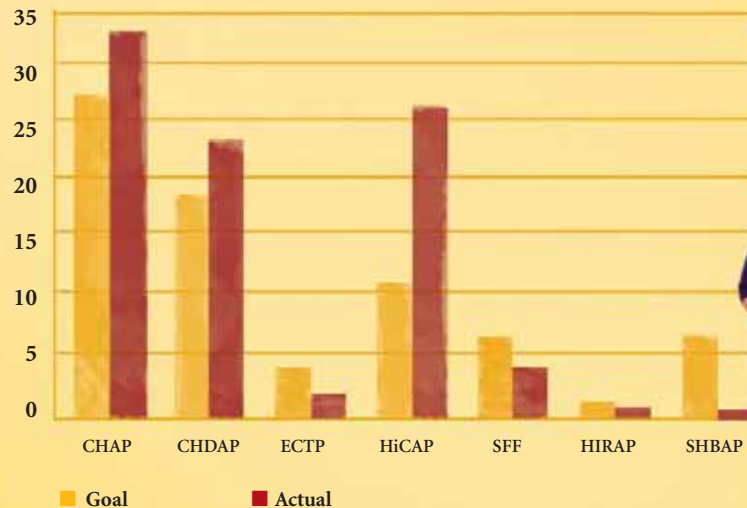
The **Self-Help Builder Assistance Program (SHBAP)** maintained production levels of past years with the purchase of 44 loans totaling \$5.1 million, with forward commitments totaling \$12 million as of July 1, 2004. The program provides qualified individuals with a 3% interest 30-year fixed rate mortgage. Borrowers with limited financial resources achieve homeownership by contributing their "sweat equity" in lieu of a cash down payment.

The **Affordable Housing Partnership Program (AHPP)**—a partnership with 215 localities and nonprofits—generated over 400 loans totaling \$12 million. For the last nine years, this program has enabled the Agency to work hand in hand with hundreds of cities, counties, redevelopment agencies, and housing authorities to offer even greater assistance to first-time homebuyers across the State.

### CALHFA HOMEOWNERSHIP

2003-2004 Production vs. Goal Comparison

Down Payment Assistance Programs (in millions)





## CALHFA HOMEOWNERSHIP

First Mortgage Production vs. Annual Goal Comparison  
(Last Two Fiscal Years in millions)



The **California Homebuyer's Downpayment Assistance Program (CHDAP)** was especially successful this year, with the origination of 3,737 loans for \$23.4 million—more than double that of the previous year. This significant increase is attributable to CalHFA's increased marketing and outreach efforts. The program offers a deferred-payment junior loan to assist with down payment and closing costs.

The **Extra Credit Teacher Home Purchase Program (ECTP)**—designed to attract and retain teaching professionals for high priority schools—generated 255 loans for \$2.1 million. The program combines a CalHFA below market rate first loan with a second loan used for down payment assistance.

The **School Facility Fee Down Payment Assistance Program (SFF)** completed its roll-out plan. Stepped up marketing efforts which resulted in the awarding of 1,259 grants for \$4.4 million to be used for down payment assistance or closing costs for buyers of newly constructed homes across the State.

The **Homeownership In Revitalization Areas Program (HIRAP)**, a newly launched program, offers low income first-time homebuyers a deferred-payment junior loan to be used for down payment or closing costs in a designated revitalization area. The borrower is required to obtain homebuyer counseling through approved nonprofits and purchase a home in areas targeted by the nonprofit.

The **HomeChoice Program** is a partnership among CalHFA, Fannie Mae, and Guild Mortgage, offering persons with disabilities a deeply discounted 30-year fixed rate mortgage combined with a junior loan.



## MULTIFAMILY



**T**he Multifamily Division's goal is to provide direct construction and permanent financing for new housing developments, special needs projects, and the preservation of existing rental housing for very low, low, and moderate income individuals and families. During Fiscal Year 2003-04, the Agency funded a record 40 projects. These new projects will produce 2,807 rental units, a 90 percent increase over the 1,474 units funded the previous year. In total, the Agency closed new multifamily loans with commitments totaling nearly \$240 million during Fiscal Year 2003-04.

### ACHIEVEMENTS 2003-04

- ❖ Issued loan commitments for \$253 million to develop 26 projects totaling 1,643 units.
- ❖ Provided financing commitments for projects with a high degree of affordability for tenants through the Agency's construction and preservation programs. 68% of units were rented to tenants earning 50% or less of Area Median Income (AMI), 27% to tenants earning between 51-80%, and 5% to those tenants earning over 80% of AMI.
- ❖ Approved eight new projects under the Construction Lending Program for loans totaling more than \$93 million. Upon completion, these projects will produce 642 units of rental housing, an increase of over 400% from the previous year. The Agency also funded five construction projects, representing 359 units for a total of \$57 million.
- ❖ Achieved \$363 million in overall construction loan productivity (from pipeline projects to funded projects). This represents 28 projects that contain 2,334 units.
- ❖ Provided loan commitments for two special needs projects for just over \$11 million and funded six special needs projects for a total of nearly \$10 million. These eight projects represent 187 rental units of special needs housing.

### PROMISES FOR 2004-05

- ❖ Issue loan commitments totaling \$350 million for construction/permanent financing, preservation financing, special needs, and HELP.
- ❖ Increase partnerships with local governments to meet their financing needs.
- ❖ Introduce a development lending program to promote urban infill homeownership.

CALHFA  
CLOSED  
NEARLY  
\$240 MILLION  
IN MULTIFAMILY  
LOAN COMMITMENTS  
DURING  
FISCAL YEAR  
2003-04.



### CALHFA MULTIFAMILY UNIT AFFORDABILITY Commitments 2003-2004

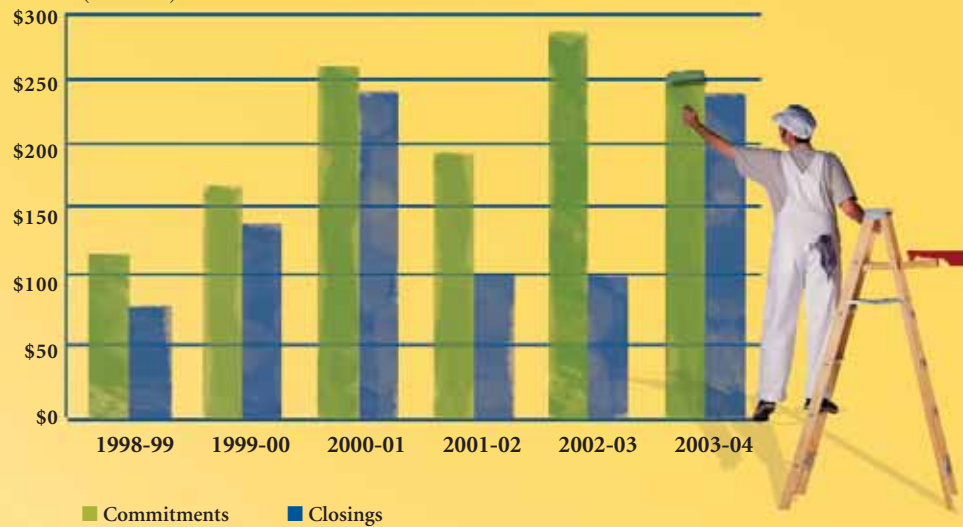
- 50% AMI or Less
- 51% AMI to 80% AMI
- Over 80% AMI



## MULTIFAMILY PROGRAM ACTIVITY

FISCAL YEARS ENDING 1999-2004

(millions)



## MULTIFAMILY ASSET MANAGEMENT

The Asset Management Division manages the multifamily housing portfolio throughout the life of the loans—typically 30-40 years—and protects CalHFA's real estate assets from loss. The Division works with building owners and managers to insure that the housing is fiscally sound, well-operated, clean, and safe for tenants over the long term.

### ACHIEVEMENT 2003-04

- ❖ Added 24 new permanent CalHFA loans to the portfolio, totaling 1,703 units.

### PROMISES FOR 2004-05

- ❖ Enhance existing technology.
- ❖ Increase staff resources to meet the growing needs of the expanding CalHFA loan portfolio.



## MORTGAGE INSURANCE



**T**he Mortgage Insurance Division is charged with expanding homeownership opportunities by providing innovative mortgage insurance programs at affordable rates. For Fiscal Year 2003-04, the Division experienced a reduction in its volume as a result of Government Sponsored Enterprises and major lenders targeting our customer base. In addition, the proliferation of loan programs that enable the borrower to avoid private mortgage insurance, as well as the increase of captive reinsurance by private insurers and lenders, resulted in the Division's reduced activity levels.

### ACHIEVEMENTS 2003-04

- ❖ Insured 1,319 loans for \$295 million.
- ❖ At year-end, 4,124 active mortgage insurance policies were in force, totaling \$740 million.
- ❖ Launched new emerging market products, including the Economic Opportunity Mortgage and Cal Jumbo Program which target high cost areas, and the expanded Lease Purchase Program in Bay Area counties.
- ❖ Introduced a zero monthly payment option for Agency loans which will reduce the required cash to close for borrowers.
- ❖ Restructured the existing programs with CalSTRS and CalPERS, making them more attractive to prospective homebuyers.
- ❖ Established partnerships with major lenders.

### PROMISES FOR 2004-05

- ❖ Generate \$260 million in total mortgage insurance activity.
- ❖ Continue to develop strategic partnerships that lead to the introduction of new products.
- ❖ Create an integrated technology platform for lenders that will streamline the loan processing.

THE MORTGAGE

INSURANCE

DIVISION EXPANDS

HOMEOWNERSHIP

OPPORTUNITIES BY

PROVIDING

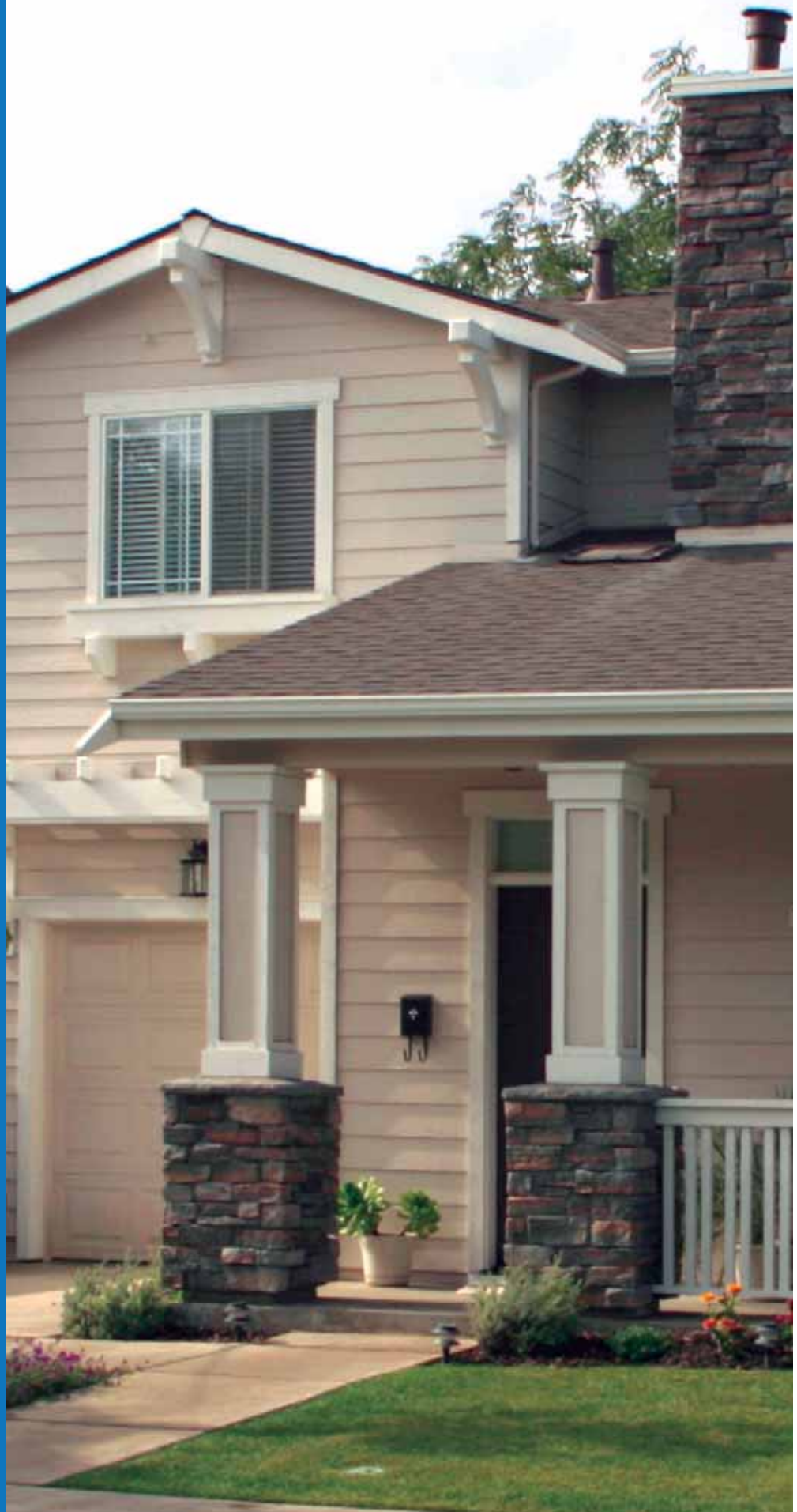
INNOVATIVE

MORTGAGE

INSURANCE

PROGRAMS AT

FAVORABLE RATES.





## SPECIAL HOUSING



**F**or the past six years, the Agency has promoted the successful *Housing Enabled by Local Partnerships (HELP) Program*. This program, which provides affordable housing opportunities through partnerships with local government entities, awarded 21 loan commitments to localities during Fiscal Year 2003-04. This translates into the production of approximately 3,600 units over a ten-year period. Since the program's inception, 119 active commitments have been awarded to 86 localities. Over the ten-year life of the loan agreements, approximately 19,000 affordable housing units representing both homeownership and multifamily developments will be produced.

### **ACHIEVEMENTS 2003-04**

- ❖ \$10 million in loans awarded in December to ten localities.
- ❖ \$12 million in loans awarded in June to eleven localities.

### **PROMISE FOR 2004-05**

- ❖ Expand outreach partnership efforts to serve as a catalyst for meeting the affordable housing priorities of localities.

HELP

PROVIDES

AFFORDABLE

HOUSING

OPPORTUNITIES

THROUGH

PARTNERSHIPS

WITH LOCAL

GOVERNMENT

ENTITIES.



california housing finance agency  
FINANCIAL SERVICES



**T**he *Financing Division* manages borrowed capital to finance CalHFA's affordable housing programs. The Division also manages CalHFA's outstanding debt obligations and non-mortgage investments, and makes recommendations concerning general financial matters.

The *Fiscal Services Division* supports CalHFA's activities through the receipt and disbursement of financial resources, safeguards assets, and services loans. The Division also records and reports on financial matters in accordance with professional standards in meeting all federal, state, and indenture requirements.

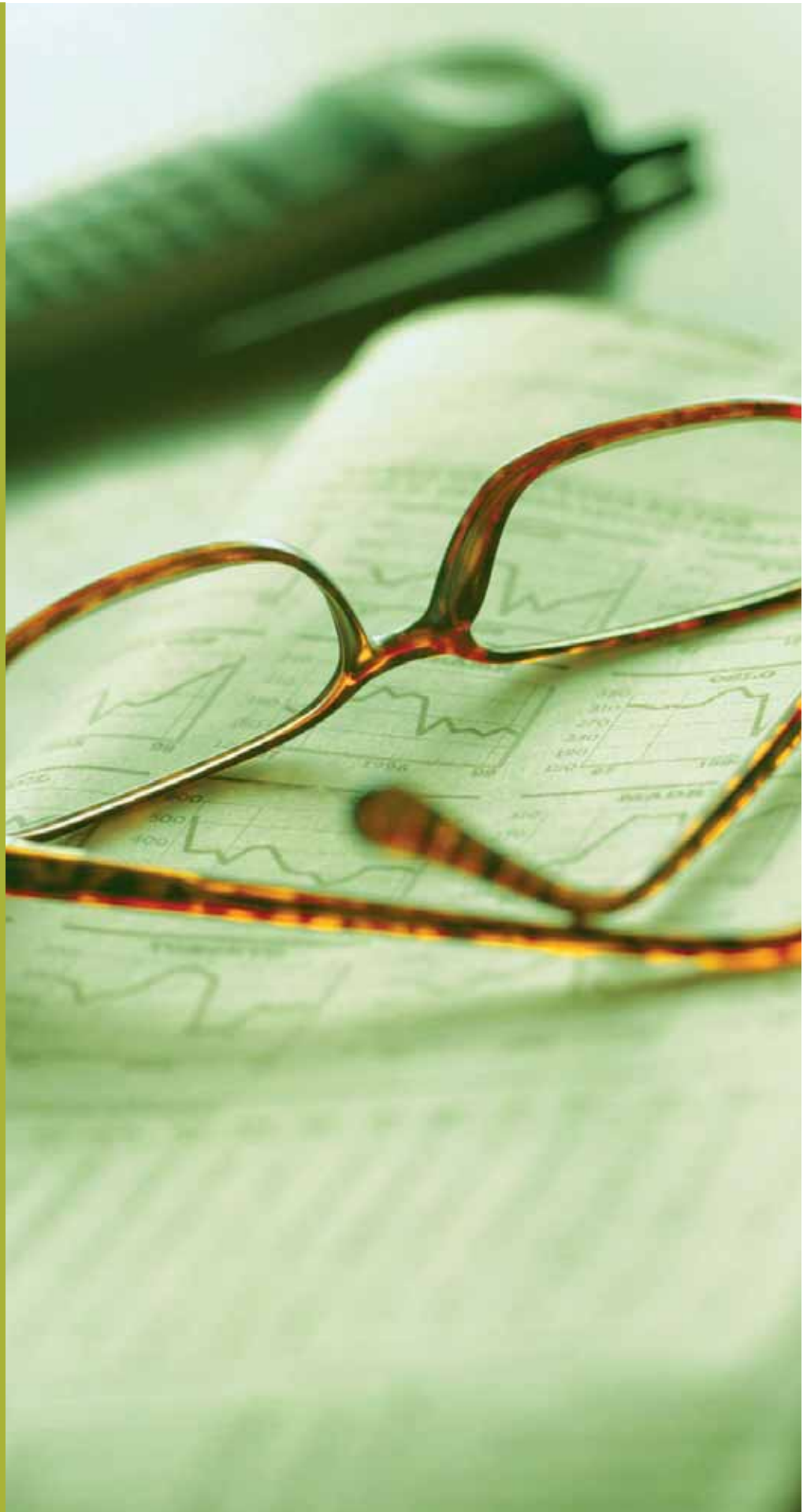
#### ACHIEVEMENTS 2003-04

- ❖ Issued \$2 billion of bonds during the fiscal year, including \$840 million of bonds whose interest is federally taxable to bondholders, significantly expanding CalHFA's lending programs.
- ❖ Partnered with Southern California Home Financing Authority to jointly issue \$270 million of bonds to fund first-time homebuyer loans in Los Angeles and Orange counties.
- ❖ Continued to issue variable-rate bonds in record numbers and have now arranged over 100 "fixed-payer" interest rate swaps with ten counterparties for a combined outstanding notional amount of \$4.2 billion.
- ❖ Coordinated the annual financial audits of the Housing Finance Fund and the Housing Loan Insurance Fund receiving qualified opinions from our independent accountants in both instances.
- ❖ Established an historic, all-time low delinquency ratio (April 1, 2004) of 2.64% for those homeowners whose loans are serviced by CalHFA.
- ❖ Administered over \$9.7 billion in Agency assets.

#### PROMISES FOR 2004-05

- ❖ The Five-Year Business Plan calls for total lending activity of \$1.7 billion in Fiscal Year 2004-05 and \$9 billion over the life of the Plan. CalHFA's financial arm will issue bonds sufficient to fund/purchase all new loan originations.
- ❖ The Financing Division will for the first time issue bonds, backed by our general obligation, to finance homeownership down payment assistance loans.
- ❖ The Agency will staff a Risk Management Group—a further sign of our promise to continue offering our loan products at extremely low interest rates.

CALHFA  
RECEIVED  
STANDARD AND  
POOR'S  
DESIGNATION  
AS A "TOP-TIER"  
STATE  
HOUSING  
AGENCY FOR THE  
19TH  
CONSECUTIVE  
YEAR.



## SUPPORT SERVICES



**T**he Administrative Division supports the operational needs of CalHFA by providing staffing, facilities, equipment, and technology.

The Office of General Counsel manages the legal affairs of CalHFA by providing sound legal advice for day-to-day operations, as well as consultation and legal services to support each Division's Five-Year Business Plan.

### ACHIEVEMENTS FOR 2003-04

- ❖ The Administrative Division successfully relocated one-third of the CalHFA Sacramento staff to a new office building and redesigned the existing office space to help the rapidly-growing staff operate more efficiently.
- ❖ The Office of General Counsel hired additional talent dedicated to providing specialized legal advice and acquired new legal technology to enhance the records management process.

### PROMISES FOR 2004-05

- ❖ Increase staff to keep pace with the growing needs of CalHFA's existing and new programs.
- ❖ Undertake the comprehensive review of the Agency's statutory framework.



Affordable Housing is our Business



California Housing Finance Agency does not discriminate on the basis of disability in employment or in the admission and access to its programs or activities.



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