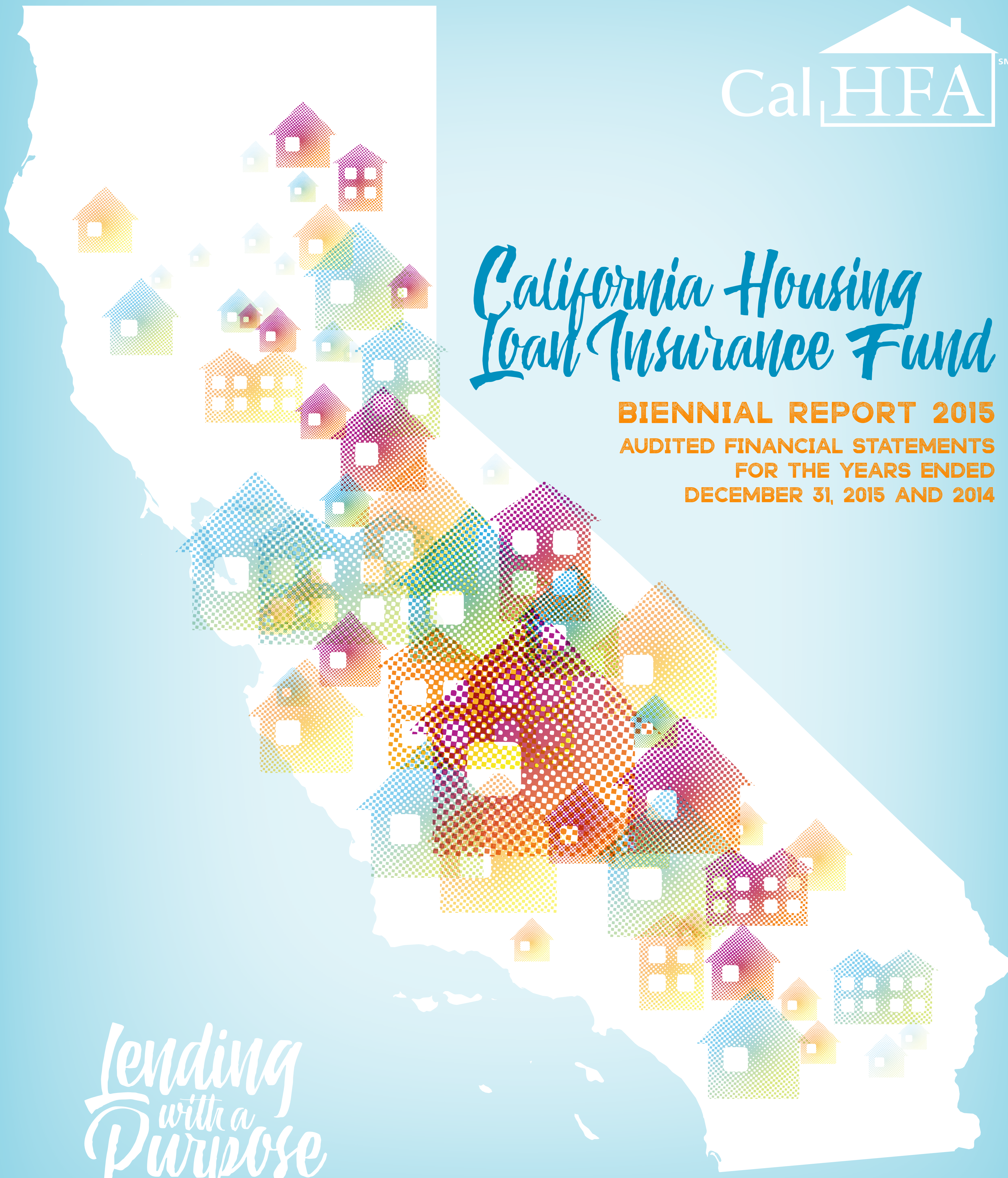
CalHFA

California Housing Loan Insurance Fund

BIENNIAL REPORT 2015

AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014



Lending with a Purpose

CALIFORNIA HOUSING FINANCE AGENCY

CALIFORNIA HOUSING FINANCE AGENCY

MORTGAGE INSURANCE SERVICES

BIENNIAL PROGRAM EVALUATION REPORT

Prepared by the
California Housing Finance Agency

November 1, 2016

Table of Contents

Introduction

This biennial program evaluation repot on the California Housing Loan Insurance Fund (CaHLIF) Programs, administered by the California Housing Finance Agency (CalHFA), is submitted in accordance with the statutory reporting requirements of Section 51622 of the Health and Safety Code. The statute provides that the report shall discuss the program's effectiveness in relation to cost and include any recommendations and suggested legislation, if any for improvement to its programs.

CalHFA was created in 1975 as California's affordable housing lender. In that capacity, the Agency provides affordable loan products for first time low- to moderate-income homebuyers and developers of affordable rental and special needs housing. In 1977, CalHFA was statutorily authorized to offer mortgage insurance programs for single family or multifamily loans and for construction loans where the underlying loan targets low-to-moderate income homeowners or renters, and to offer bond insurance.

CalHFA's Mortgage Insurance programs are funded by CaHLIF, a public enterprise fund. This fund is not in any way guaranteed by CalHFA or the State of California. As such, neither CalHFA nor the State of California is liable for any claims against CaHLIF.

CalHFA Mortgage Insurance Overview & Performance

Mortgage insurance protects lenders and investors from potential financial loss should a borrower default on a mortgage. The mortgage insurance industry acts as a link between the primary mortgage originators and the capital markets, such as Fannie Mae, Freddie Mac or other Wall Street investment facilities. Mortgage insurance facilitates investment in high loan-to-value mortgages in the capital mortgage market and expands homeownership opportunities by enabling qualified borrowers to buy homes typically with 5% or 10% down payment, rather than more historically standard 20% of purchase price.

The mission of CalHFA's Mortgage Insurance program has been to expand homeownership opportunities for eligible California homebuyers by providing low cost mortgage insurance programs specifically designed for first-time, low- and moderate-income homebuyers who have limited income for mortgage payments and/or lack sufficient savings for a standard 20% down payment.

Since its creation in 1977, CalHFA's Mortgage Insurance programs have insured 35,655 loans with an origination loan balance of $6.7 billion. As of August 31, 2016 there were 2,094 loans insured by the Fund for a balance of $492.4 million and a total insured risk, or risk-in-force, of $166.6 million.

In March 2003, CalHFA as administrator of the Insurance Fund entered into a reinsurance agreement (the “Genworth Reinsurance Agreement”) with Genworth Mortgage Insurance Corporation (“Genworth”) (formerly known as General Electric Mortgage Insurance Corporation) under which Genworth reinsured eligible qualified Mortgage Loans of specified types meeting specified underwriting standards insured by the Insurance Fund each year for a reinsurance term ending ten years from the beginning of the calendar year of origination. Under the Genworth Reinsurance Agreement, the Insurance Fund retains a 25% share of the insured risk under the primary mortgage insurance coverage written on any Genworth reinsured loan and Genworth retains the remaining 75% of insured risk on such loans whose reinsurance terms have not expired. The Insurance Fund retains 31% to 35.5% of all premiums collected for Mortgage Insurance on Genworth reinsured loans and Genworth receives the remainder of such premiums. The reinsurance terms for all loans originated prior to 2007 have expired and the contracts were not renewed. CalHFA expects that reinsurance will not be renewed on loans reaching the end of their current reinsurance terms at the end of 2016 and subsequent years, such that after December 31, 2018, Genworth will have no remaining reinsurance obligation under the Genworth Reinsurance Agreement. The table below shows the aggregate principal balance as of August 31, 2016 of Mortgage Loans whose current reinsurance terms expire at the end of each such year, and the aggregate principal balance as of August 31, 2016 of Mortgage Loans whose current reinsurance terms extend beyond the end of such year.

Date	Aggregate Principal Balance as of August 31, 2016 of Mortgage Loans Whose Current Reinsurance Terms Expire on Date	Aggregate Principal Balance as of August 31, 2016 of Mortgage Loans Whose Current Reinsurance Terms Extend Beyond Date
December 31, 2016	$151,142,733	$134,814,158
December 31, 2017	$134,287,521	$526,637
December 31, 2018	$526,637	-

Increased claims over the past several years, due to the negative economic trend, have fully depleted CaHLIF’s assets, and CaHLIF is no longer able to fully pay claims. By the fourth quarter of 2009, CaHLIF’s statutory surplus capital fell below that required to insure new loans. CaHLIF then withdrew as an insurer of new business, and in the third quarter of 2010 withdrew its request to be rated by Standard & Poor’s. In the fourth quarter of 2011, CaHLIF had completely depleted its loss reserve and began scheduling its portion of claim settlement payments from premium funds as they were received. As CaHLIF receives premiums, the funds are only used to pay administrative costs and to pay claims. CalHFA expects the receipts of ongoing net premiums should be available to pay claims through 2020. Premiums received for 2015 and 2014 were $2.6 million and $2.9 million, respectively.

Financial Summary

The audited financial statements of the Insurance Fund along with footnotes and a management discussion and analysis for the years ended December 31, 2015 and 2014 are attached to this report. Such financial statements reflect, at December 31, 2015, total assets of $673 thousand and total liabilities of $54.6 million and a resulting negative net position (i.e., a deficit) of $53.9 million. As of December 31, 2015, the Insurance Fund's cash and cash equivalents were not sufficient to meet the Insurance Fund's total anticipated cash requirements to pay its obligations in 2016.

CaHLIF Challenges

Since the downturn in the economy and the negative impact on housing that started in approximately 2008 CaHLIF has faced many challenges, which include:

- The depletion of capital resulting from an unprecedented number of claims filed.
- Decrease in statutory surplus capital causing CalHLIF to withdraw as an insurer of new business
- Downgrades in S&P ratings, eventually leading to CalHFA withdrawing CaHLIF's rating
- Roll off of reinsurance by Genworth, it is expected that there will no longer be any reinsurance on CaHLIF insured loans by the end of 2018, which increases CaHLIF's risk which potentially could result in increased percentage of claims paid.
- The lack of potential new capital infusion to support existing insurance obligations.

Recommendations and/or Actions Taken

CalHFA has concluded that the CaHLIF program is in a wind-down mode primarily due to the lack of potential new capital infusion to support its programs. CalHFA has designed a plan to gradually wind-down the program. The plan is as follows:

- In August 2011, CaHLIF implemented a payment plan in which approved claims are placed in a queue in the order in which they have been received from Genworth and as premiums are received the claims are paid on a "first-received, first-paid" basis.

- Also in August 2011, to maintain the orderly administration of the fund, CaHLIF implemented a plan to pay administrative and operating expenses, while minimal, prior to the payment of claims in the queue. In addition, CalHFA as administrator of CaHLIF has contracted with Genworth to administer all mortgage insurance services, including loans that no longer have reinsurance, for CaHLIF through 2018. CalHFA plans to engage in discussions with Genworth to extend the contract.

- On June 27, 2016 Senate Bill No. 837 was approved by the Governor. The bill requested:

  - The removal of the statutory requirement for CalHFA to have a Director of Insurance for CalHLIF, instead allowing existing agency staff to oversee the administrative responsibilities for the winding down of the Insurance Fund, potentially saving the Insurance Fund $170,000 annually, which would allow more claims to be paid.

  - That the statutory requirement for an annual audit of the Fund be replaced with an "agreed upon procedures" engagement of the Fund's books and accounts, saving the Insurance Fund approximately $35,000 annually, which would allow more claims to be paid.

Table of Contents

California Housing Loan Insurance Fund

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CliftonLarsonAllen LLP
www.CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
California Housing Loan Insurance Fund
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of a Matter

During fiscal year ended December 31, 2015, the Fund adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*. As a result of the implementation of these standards, the Fund reported a restatement for the change in accounting principle (see Note 8). Our auditors' opinion was not modified with respect to the restatement.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Fund as of December 31, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Fund will continue as a going concern. As discussed in Note 2 to the financial statements, the Fund is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-12, the Schedule of the Fund's Proportionate Share of the Net Pension Liability on page 30 and the Schedule of Fund Contributions on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016

The California Housing Finance Agency ("Agency") was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California ("State") and is included in the State's Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Loan Insurance Fund (the "Fund"), the California Housing Finance Fund ("CHFF") and one state general obligation bond fund. The Agency is governed by a Board of Directors which consists of 13 voting members and three non-voting members. Of the 13 voting members, seven are appointed by the Governor, four are ex-officio and two are appointed by the Legislature. The statutory role of the Board is to: 1) enact the annual financing resolutions that permit the issuance of bonds and 2) enact the Agency's operating budget and business plan. Subject to the supervision of the Board, the Agency's day-to-day operational authority statutorily resides with the Agency's Executive Director. The annual audited financial statements of both the Fund and the Housing Finance Fund are available on the Agency's website - www.calhfa.ca.gov.

The following Management Discussion and Analysis applies only to the activities of the Fund and should be read in conjunction with the Fund's financial statements and the notes to the financial statements. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State. The Agency was authorized to use the Fund's assets as at-risk capital in support of mortgage insurance programs which finance the acquisition, new construction, or rehabilitation of residential structures in California. The Fund insures loans made by the Agency; loans made by lenders for securitization by the Federal National Mortgage Association ("FNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"); and loans made by localities, nonprofit agencies, and the California State Teachers' Retirement System. In conducting business, the Agency is authorized to reinsure any risk undertaken by the Fund.

While the Fund is subject to the same statutory requirements as private mortgage insurance companies with respect to the maintenance of policyholders' surplus, the Fund is exempt from regulatory control by the State Department of Insurance. The Fund is currently unrated.

Underwriting, acquisition, and issuance expenses are charged directly to the Fund as well as loss and loss adjustment expenses. Certain administrative and operating expenses, including office space, business services and supplies, legal services, accounting services, information technology support, and human resource support services, are provided by the Agency and indirectly charged to the Fund. The basic financial statements of the Fund include the statement of net position, statement of revenue, expenses and changes in net position and statement of cash flows.

FINANCIAL RESULTS 2015 – 2014

- The Fund had operating income of $14.5 million for 2015. Net operating results of the Fund increased by approximately $1.7 million in 2015 when compared to the operating income of $12.8 million in 2014. The Fund has a net deficit balance of $53.9 million at December 31, 2015, compared to a net deficit balance of $68.2 million at December 31, 2014.

CALIFORNIA HOUSING LOAN INSURANCE FUND

- The Fund's reserve for loan losses decreased by $4.8 million to $2.4 million in 2015 as a result of the Fund's decreased number of delinquencies outstanding and continued improvement to the California housing market during 2015. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

- The Fund's premium deficiency reserve decreased by $10.6 million to $3.9 million in 2015. In 2014, the premium deficiency reserve decreased by $4.2 million to $14.5 million. The significant decline in the reserve is a result of the change in factors used to determine the premium deficiency reserve as explained in Note 2.

- Insurance in force decreased by $244.5 million, or 27%, to $668.9 million as of December 31, 2015, compared to $913.4 million as of December 31, 2014. The decline is primarily due to the 2005 expiring book of business that exited reinsurance during 2015. The Fund ceased committing to insure new loans in September 2009.

- The number and amount of insured delinquencies declined from 426 or $111.4 million in 2014 to 205 or $49.8 million in 2015. Gross insurance claim payments were $13.5 million and $21.5 million in 2015 and 2014, respectively, before reinsurance.

- The Fund continued the reinsurance treaty and administrative services agreement with Genworth Financial ("Genworth"), previously known as GE Mortgage Insurance Corporation ("GEMICO"). This insurance treaty cedes to Genworth a 75% quota share of the insurance risk and 64.5% of the premium collected for most loans insured by the Fund. The treaty was amended for loans insured on or after May 1, 2008 to 67% of premium collected and amended again on April 1, 2009 to 69% of premium collected on loans insured on or after that date.

- Each month, the Fund continues to receive its share of premiums from policies still in force and uses the monthly premiums received along with any other available funds to pay the Fund's claims on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly operating expenses of the Fund (see Note 2). The Fund continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims. (see Note 6).

- Moody's Investor Services ("Moody's") rating of Genworth Mortgage Insurance Corporation remained at "Ba1" during the year.

- In 2015, the Fund applied Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The pension expenses and liabilities of the Fund were only calculated and recorded as of June 30, 2015. As a result of the implementation, the Fund's beginning net position for the year was reduced by $264 thousand. See Note 3 – Changes in Accounting Principles and Note 8 – Pension Plan.

CALIFORNIA HOUSING LOAN INSURANCE FUND

2015 COMPARED TO 2014

CONDENSED STATEMENTS OF NET POSITION

The following table presents condensed statements of net position for the Fund as of December 31, 2015 and 2014, and the change from year to year (dollars in thousands):

	2015	2014 *	Change
ASSETS			
Cash, cash equivalents, and investments	$ 42	$ 37	$ 5
Other assets	590	705	(115)
Total assets	$ 632	$ 742	$ (110)
DEFERRED OUTFLOWS OF RESOURCES			
Employer contribution	$ 41	$ -	$ 41
LIABILITIES			
Reserves for unpaid losses and loss adjustment expenses	$ 2,390	$ 7,167	$ (4,777)
Premium deficiency reserve	3,913	14,479	(10,566)
Unearned premiums	5	11	(6)
Accounts payable and other liabilities	48,256	47,288	968
Total liabilities	$ 54,564	$ 68,945	$ (14,381)
DEFERRED INFLOWS OF RESOURCES			
Unamortized pension net difference	$ 55	$ -	$ 55
NET POSITION			
Net investment in capital assets	$ 6	$ 10	$ (4)
Unrestricted	(53,952)	(68,213)	14,261
Total net position	$ (53,946)	$ (68,203)	$ 14,257

*****Amounts in 2014 have not been adjusted for the effects of the adoption of GASB 68 and 71.

Assets - Total assets of the Fund were $632 thousand as of December 31, 2015, a decrease of $110 thousand or 15% from December 31, 2014. Of the Fund's assets, 7% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $42 thousand as of December 31, 2015, an increase of $5 thousand from December 31, 2014. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $590 thousand as of December 31, 2015, a decrease of $115 thousand or 16% from December 31, 2014. The accounts receivable from Genworth for premiums is lower in 2015 due to the declining number of active policies. During 2015, the number of active policies declined by 916 or 26.6%.

Deferred outflow of resources was $41 thousand as of December 31, 2015, which includes the fund's pension contribution after the measurement date of June 30, 2015, and unamortized difference between projected and actual earnings on pension plan investments after adopting GASB 68 and GASB 71 in 2015.

Liabilities - The Fund's liabilities were $54.6 million as of December 31, 2015, a decrease of $14.4 million or 21% from December 31, 2014.

The reserve for unpaid losses and loss adjustment expenses was $2.4 million as of December 31, 2015, a decrease of $4.8 million from December 31, 2014. The premium deficiency reserve decreased $10.6 million to $3.9 million in 2015. As of December 31, 2015, 205 insured loans with balances aggregating $49.8 million were reported as delinquent by the lender. As of December 31, 2014, 426 insured loans with balances aggregating $111.4 million were reported as delinquent by the lender.

Unearned premiums were $5 thousand as of December 31, 2015, a decrease of $6 thousand from December 31, 2014.

Accounts payable and other liabilities were $48.3 million as of December 31, 2015, an increase of $968 thousand from December 31, 2014. Genworth is paying their 75% share of the claim payment and the Fund is paying 25% share of the claim payment. Since the Fund's cash is temporarily depleted each month, a claims payable is set up for the Fund's share of the claim payments that have not yet been paid.

The fund's pension liability, included in the other liabilities, was $244 thousand as of December 31, 2015. The fund adopted GASB 68 and GASB 71 in 2015, and did not report any pension liability in prior years.

Deferred inflow of resources was $55 thousand as of December 31, 2015, which includes the unamortized net difference between projected and actual earnings on investments from prior years and unamortized change in proportion of pension liability, due to the adoption of GASB 68 and GASB 71 in 2015.

Net Position - The Fund's net position is classified as unrestricted or net investment in capital assets. Total net position of the Fund was increased by $14.3 million as a result of this current year's operations.

CALIFORNIA HOUSING LOAN INSURANCE FUND

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2015 and 2014, and the change from year to year (dollars in thousands):

	2015	2014 *	Change
OPERATING REVENUES:			
Premiums earned	$ 5,661	$ 7,349	$ (1,688)
Expired book revenue - reinsurer	2,043	1,347	696
Other revenues	7	7	0
Total operating revenues	7,711	8,703	(992)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	241	(4,825)	5,066
Premium deficiency reserve expenses	(10,566)	(4,240)	(6,326)
Salaries and general expenses	3,507	5,007	(1,500)
Other expenses	8	(27)	35
Total operating expenses	(6,810)	(4,085)	(2,725)
OPERATING INCOME	$ 14,521	$ 12,788	$ 1,733

*****Amounts in 2014 have not been adjusted for the effects of the adoption of GASB 68 and 71.

Operating Revenues - Operating revenues were $7.7 million during 2015 compared to $8.7 million during 2014, a decrease of $1 million or 11%.

Premiums earned in 2015 decreased by $1.7 million or 23% compared to premiums earned in 2014. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was $668.9 million and $913.4 million as of December 31, 2015 and 2014, respectively.

As the 10 year reinsurance period expires for a book year, the Fund receives Genworth's reserves set aside for that book year. In 2015, the Fund received $2.0 million for the policies that began reinsurance in 2005 book year.

The Fund invests its cash in SMIF only. SMIF interest rates for the past two years are shown in the following table:

Periods	Year 2015	Periods	Year 2014
January — March	0.254%	January — March	0.222%
April — June	0.283%	April — June	0.228%
July — September	0.316%	July — September	0.234%
October — December	0.364%	October — December	0.249%

Other revenues remained at $7 thousand in both 2015 and 2014. Recoveries made on amounts owed from defendants in certain litigation stay the same from last year.

Operating Expenses - Total operating expenses were negative $6.8 million during 2015 compared to negative $4.1 million during 2014, a decrease of $2.7 million or 67%, primarily due to the following:

The loss and loss adjustment expenses increased by $5.1 million in 2015 as a result of the significant change to the loss reserve methodology in 2014 when compared to 2015 in which there was no change to the methodology.

The decrease in premium deficiency reserve expenses was $6.3 million in 2015 when compared to 2014. The change in premium deficiency reserve expense is attributable to a change in estimate of continuing expenses, reflective of decreased activity and a reduction in active claims as of December 31, 2015 (see Note 2).

The Fund’s salaries and general expenses were $3.5 million during 2015 compared to $5.0 million during 2014, a decrease of $1.5 million or 30%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force.

Operating Income - Operating income for 2015 was $14.5 million compared to an operating income of $12.8 million in 2014, an increase of $1.7 million in income.

CALIFORNIA HOUSING LOAN INSURANCE FUND

FINANCIAL RESULTS 2014 – 2013

- The Fund had operating income of $12.8 million for 2014. Net operating results of the Fund decreased by approximately $17.4 million in 2014 when compared to the operating income of $30.2 million in 2013. The Fund has a net deficit balance of $68.2 million at December 31, 2014, compared to a net deficit balance of $81.0 million at December 31, 2013.

- The Fund's reserve for loan losses decreased by $11 million to $7.2 million in 2014 as a result of the Fund's decreased number of delinquencies outstanding, improving California housing market and change to the loss reserve methodology in 2014 (see Note 2). The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

- The Fund's premium deficiency reserve decreased by $4.2 million to $14.5 million in 2014. In 2013, the premium deficiency reserve decreased by $31.1 million to $18.7 million.

- Insurance in force decreased by $243.2 million, or 21%, to $913.4 million as of December 31, 2014, compared to $1.16 billion as of December 31, 2013. The Fund ceased committing to insure new loans in September 2009.

- The number and amount of insured delinquencies declined from 642 or $167.6 million in 2013 to 426 or $111.4 million in 2014. Gross insurance claim payments were $21.5 million and $52.5 million in 2014 and 2013, respectively, before reinsurance.

- The Fund continued the reinsurance treaty and administrative services agreement with Genworth Financial ("Genworth"), previously known as GE Mortgage Insurance Corporation ("GEMICO"). This insurance treaty cedes to Genworth a 75% quota share of the insurance risk and 64.5% of the premium collected for most loans insured by the Fund. The treaty was amended for loans insured on or after May 1, 2008 to 67% of premium collected and amended again on April 1, 2009 to 69% of premium collected on loans insured on or after that date.

- Each month, the Fund continues to receive its share of premiums from policies still in force and uses the monthly premiums received along with any other available funds to pay the Fund's claims on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly operating expenses of the Fund (see Note 2). The Fund continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims. (see Note 6).

- Moody's Investor Services ("Moody's") rating of Genworth Mortgage Insurance Corporation remained at "Ba1" during the year.

CALIFORNIA HOUSING LOAN INSURANCE FUND

2014 COMPARED TO 2013

CONDENSED STATEMENTS OF NET POSITION

The following table presents condensed statements of net position for the Fund as of December 31, 2014 and 2013, and the change from year to year (dollars in thousands):

	2014	2013	Change
ASSETS			
Cash, cash equivalents, and investments	$ 37	$ 159	$ (122)
Other assets	705	823	(118)
Total assets	$ 742	$ 982	$ (240)
LIABILITIES			
Reserves for unpaid losses and loss adjustment expenses	$ 7,167	$ 18,178	$ (11,011)
Premium deficiency reserve	14,479	18,719	(4,240)
Unearned premiums	11	33	(22)
Accounts payable and other liabilities	47,288	45,043	2,245
Total liabilities	68,945	81,973	(13,028)
NET POSITION			
Net investment in capital assets	10	14	(4)
Unrestricted	(68,213)	(81,005)	12,792
Total net position	$ (68,203)	$ (80,991)	$ 12,788

Assets - Total assets of the Fund were $742 thousand as of December 31, 2014, a decrease of $240 thousand or 24% from December 31, 2013. Of the Fund's assets, 5% are represented by cash and **i**nvestments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $37 thousand as of December 31, 2014, a decrease of $122 thousand from December 31, 2013. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $705 thousand as of December 31, 2014, a decrease of $118 thousand or 14% from December 31, 2013. The accounts receivable from Genworth for premiums is lower in 2014 due to the declining number of active policies.

Liabilities - The Fund's liabilities were $68.9 million as of December 31, 2014, a decrease of $13.0 million or 16% from December 31, 2013.

CALIFORNIA HOUSING LOAN INSURANCE FUND

The reserve for unpaid losses and loss adjustment expenses was $7.2 million as of December 31, 2014, a decrease of $11.0 million from December 31, 2013. The premium deficiency reserve decreased $4.2 million to $14.5 million in 2014. As of December 31, 2014, 426 insured loans with balances aggregating $111.4 million were reported as delinquent by the lender. As of December 31, 2013, 642 insured loans with balances aggregating $167.6 million were reported as delinquent by the lender.

Unearned premiums were $11 thousand as of December 31, 2014, a decrease of $22 thousand from December 31, 2013.

Accounts payable and other liabilities were $47.3 million as of December 31, 2014, an increase of $2.2 million from December 31, 2013. Genworth is paying their 75% share of the claim payment and the Fund is paying 25% share of the claim payment. Since the Fund's cash is temporarily depleted each month, an accounts payable is set up for the Fund's share of the claim payments that have not yet been paid.

Net Position - The Fund's net position is classified as unrestricted or net investment in capital assets. Total net position of the Fund was increased by $12.8 million as a result of this current year's operations.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2014 and 2013, and the change from year to year (dollars in thousands):

	2014	2013	Change
OPERATING REVENUES:			
Premiums earned	$ 7,349	$ 9,038	$ (1,689)
Expired book revenue - reinsurer	1,347	422	925
Other revenues	7	7	0
Total operating revenues	8,703	9,467	(764)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	(4,825)	4,221	(9,046)
Premium deficiency reserve expenses	(4,240)	(31,130)	26,890
Salaries and general expenses	5,007	6,130	(1,123)
Other expenses	(27)	44	(71)
Total operating expenses	(4,085)	(20,735)	16,650
OPERATING INCOME	$ 12,788	$ 30,202	$ (17,414)

Operating Revenues - Operating revenues were $8.7 million during 2014 compared to $9.5 million during 2013, a decrease of $0.8 million or 8%.

Premiums earned in 2014 decreased by $1.7 million or 19% compared to premiums earned in 2013. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was $913.4 million and $1.16 billion as of December 31, 2014 and 2013, respectively.

CALIFORNIA HOUSING LOAN INSURANCE FUND

As the 10 year reinsurance period expires for a book year, the Fund receives Genworth's reserves set aside for that book year. In 2014, the Fund received $1.3 million for the policies that began reinsurance in 2004 book year.

The Fund invests its cash in SMIF only. SMIF interest rates for the past two years are shown in the following table:

Interest Payment Periods	Fiscal Year 2014	Interest Payment Periods	Fiscal Year 2013
January — March	0.222%	January — March	0.275%
April — June	0.228%	April — June	0.246%
July — September	0.234%	July — September	0.249%
October — December	0.249%	October — December	0.248%

Other revenues were $7 thousand in both 2014 and 2013. Recoveries made on amounts owed from defendants in certain litigation were the same as last year.

Operating Expenses - Total operating expenses were negative $4.1 million during 2014 compared to negative $20.7 million during 2013, an increase of $16.6 million or 80%, primarily due to the following:

As the housing market continued to be stabilized in California, Loss and loss adjustment expenses decreased by $9.0 million in 2014, while the decreasing in premium deficiency reserve expenses increased $26.9 million in 2014. The change in premium deficiency reserve expense is attributable to a lower expected future paid losses amount on unexpired business on the books as of December 31, 2014.

The Fund's salaries and general expenses were $5.0 million during 2014 compared to $6.1 million during 2013, a decrease of $1.1 million or 18%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force.

Operating Income - Operating income for 2014 was $12.8 million compared to an operating income of $30.2 million in 2013, a decrease of $17.4 million in income.

Contact Information - If you would like additional information on the California Housing Loan Insurance Fund, please visit www.calhfa.ca.gov.

Request for Information - Questions concerning any of the information presented in this financial report or requests for additional information should be addressed to:

CalHFA Financing Division
500 Capitol Mall, Suite 1400
Sacramento, CA 95814
Phone: 916.326.8650
Fax: 916.322.1464

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,146	$ 33,140
Investments in Surplus Money Investment Fund	5,000	4,000
Interest receivable	5	3
Accounts receivable	584,205	694,756
Total current assets	626,356	731,899
Noncurrent assets - Capital assets	5,808	9,681
Total assets	632,164	741,580
DEFERRED OUTFLOWS OF RESOURCES		
Employer contribution after measurement date	41,592	-
LIABILITIES		
Current liabilities:		
Reserves for unpaid losses and loss adjustment expenses	2,390,118	7,167,077
Premium deficiency reserve	3,913,000	14,479,000
Unearned premiums	4,967	11,095
Reinsurance payable	154,793	212,404
Claims payable	46,946,955	46,199,490
Accounts payable & other liabilities	-	77
Compensated absences	2,434	4,032
Due to CalHFA	134,232	139,752
Total current liabilities	53,546,499	68,212,927
Noncurrent liabilities:		
OPEB obligation	774,000	732,000
Pension liability	243,885	-
Total liabilities	54,564,384	68,944,927
DEFERRED INFLOWS OF RESOURCES		
Unamortized pension net difference	55,382	-
CONTINGENCIES (Note 10)		
NET POSITION		
Net investment in capital assets	5,808	9,681
Unrestricted	(53,951,818)	(68,213,028)
Total net position (deficit)	$ (53,946,010)	$ (68,203,347)

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Premium earned	$ 5,660,918	$ 7,349,299
Expired book revenue - reinsurer	2,042,443	1,346,900
Investment income	17	10
Other revenues	7,200	7,200
Total operating revenues	7,710,578	8,703,409
OPERATING EXPENSES		
Loss and loss adjustment expense - net of recoveries	240,690	(4,825,045)
Premium deficiency reserve expenses	(10,566,000)	(4,240,000)
Salaries and General expenses	3,507,003	5,007,215
Other expenses (income)	7,881	(26,646)
Total operating (income) expenses	(6,810,426)	(4,084,476)
OPERATING INCOME	14,521,004	12,787,885
Net position (deficit) - Beginning of year	(68,203,347)	(80,991,232)
Cumulative effect of adoption of GASB 68 & 71	(263,667)	-
Restated net position at beginning of year	(68,467,014)	(80,991,232)
NET POSITION (DEFICIT) - End of year	$ (53,946,010)	$ (68,203,347)

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers - premium	$ 5,765,343	$ 7,442,939
Receipts from customers - expired book reserve	2,042,443	1,346,900
Payments to suppliers	(3,388,345)	(4,839,005)
Payments to claimants	(4,270,184)	(3,812,018)
Payments to employees	(168,164)	(260,608)
Payments from (to) other funds	16,698	(6,763)
Other (payments) receipts	7,200	7,200
Net cash provided by (used in) operating activities	4,991	(121,355)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) Sales of Investments	(1,000)	1,000
Interest on investments	14	10
Net cash provided by (used for) investing activities	(986)	1,010
Net increase (decrease) in cash and cash equivalents	4,006	(120,345)
Cash and cash equivalents at beginning of year	33,140	153,485
Cash and cash equivalents at end of year	$ 37,146	$ 33,140
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income	$ 14,521,004	$ 12,787,885
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Interest on investments	(17)	(10)
Depreciation expenses	3,873	3,872
Unpaid loss and loss adjustment expenses	(4,776,959)	(11,010,827)
Premium deficiency reserve expenses	(10,566,000)	(4,240,000)
Effects of changes in operating assets and liabilities:		
Other assets and deferred outflows of resources	68,959	115,056
Unearned premium	(6,128)	(21,417)
Compensated absences	(1,598)	(52,823)
Reinsurance payable	(57,611)	(69,617)
Claims payable	747,465	2,373,765
Accounts payable and other liabilities	(77)	(476)
Unamortized net pension inflows	55,382	-
Due to CalHFA	(5,520)	(62,763)
Due to CalPERS - OPEB & pension	22,218	56,000
Net cash provided by (used for) operating activities	$ 4,991	$ (121,355)

See notes to financial statements.

1. AUTHORIZING LEGISLATION AND ORGANIZATION

The California Housing Finance Agency ("Agency") was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California ("State") and is included in the State's Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Loan Insurance Fund (the "Fund"), the California Housing Finance Fund ("CHFF") and one state general obligation bond fund. The Agency is governed by a Board of Directors which consists of 13 voting members and three non-voting members. Of the 13 voting members, seven are appointed by the Governor, four are ex-officio and two are appointed by the Legislature. The statutory role of the Board is to: 1) enact the annual financing resolutions that permit the issuance of bonds and 2) enact the Agency's operating budget and business plan. Subject to the supervision of the Board, the Agency's day-to-day operational authority statutorily resides with the Agency's Executive Director. The annual audited financial statements of both the Fund and the Housing Finance Fund are available on the Agency's website - www.calhfa.ca.gov.

The Fund is one of two continuously appropriated funds administered by the California Housing Finance Agency (the "Agency"). These funds allow the Agency to carry out its purpose of meeting the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to insure mortgage loans and to issue bonds, notes, and other obligations to fund loans to qualified borrowers for single-family houses and multifamily developments. The Agency has no taxing power and is exempt from federal income taxes and state franchise taxes.

The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of operations of the Agency. As of June 30, 2015, the Housing Finance Fund had total assets of $4.99 billion and fund equity of $1.52 billion (not covered by this independent auditors' report).

The Agency was also authorized to use the Fund to provide mortgage insurance for loans made by the Agency and others which finance the acquisition, new construction, or rehabilitation of residential structures in California. Total risk in-force was $228.5 million and $316.4 million at December 31, 2015 and 2014, respectively. Of the insured first mortgage loans outstanding at December 31, 2015, 89.8% have loan-to-value ratios, measured as of the funding date of the loan, greater than 90%.

The Fund's reserve for loan losses decreased during 2015 as a result of the improved California housing market and decrease in the number of insured California home mortgage delinquencies. The Fund is currently unrated. In 2015, Moody's rating of Genworth Mortgage Insurance Corporation, the Fund's reinsurer, remained unchanged at "Ba1".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting - The Fund is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles"), which differ from statutory accounting practices followed by insurance companies in reporting to insurance regulatory authorities. This fund is reported using the flow of economic resources focus.

CALIFORNIA HOUSING LOAN INSURANCE FUND

The financial statements of the Fund were prepared using generally accepted accounting principles that are applicable to a going concern. Management of the Fund has concluded that there is substantial doubt as to the Fund's ability to continue to fully meet its designated purpose of paying claims and expenses. The financial statements of the Fund do not include any adjustments that might result from the outcome of this uncertainty. As of December 31, 2015, the Fund's cash and cash equivalents are not sufficient to meet the Fund's total anticipated cash requirements to pay its obligations over the next twelve months. Management believes that attempts to raise any additional capital will be unsuccessful. The Fund will continue to receive its share of premiums from policies still in force and will use the premiums received along with any other available funds to pay the Fund's obligations on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly expenses of the Fund. Further, management of the Fund is actively administering the Fund and continuously reviewing the reinsurance agreement with Genworth to determine the best course of action for both the expiring (unreinsured) and reinsured books of business.

Accounting and Reporting Standards - The Fund is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting as required by accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles", GAAP).

Recently Adopted Accounting Pronouncements*:* In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions, and to improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The Fund adopted GASB 68 and 71 for the fiscal year ended December 31, 2015.

New Accounting Pronouncements: In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application,* effective for financial statements for periods beginning after June 15, 2015. The requirements of GASB 72 will enhance comparability of financials statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The Fund plans to adopt GASB 72 for the periods beginning January 1, 2016.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, was issued in June 2015 with effective date for financial statements for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local government for making decisions and assessing accountability. The Fund plans to adopt GASB 73 for the periods beginning January 1, 2016.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* effective for financial statements for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pension (other postemployment benefits or OPEB). This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and GASB No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The Fund plans to apply GASB 74 for the periods beginning January 1, 2017.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). The Fund plans to adopt GASB 75 for the periods beginning January 1, 2018.

In June 2015, GASB also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective for the financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of GAAP. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Fund plans to adopt GASB 76 for the periods beginning January 1, 2016.

Use of Estimates - The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents - The Fund considers cash on hand and cash on deposit with the State Controller's Office other than the investment in the State's Surplus Money Investment Fund (SMIF) to be cash and cash equivalents.

Investments - The Agency invests the Fund's excess cash in SMIF, which represents a portion of the State's Pooled Money Investment Account (PMIA). These PMIA funds are on deposit within the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. Investments in SMIF are recorded at fair value. The Office of the State Treasurer of California issues a Pooled Money Investment Board Report with information on the PMIA's portfolio composition. A copy of that report may be obtained from the Office of the State Treasurer, 915 Capitol Mall, Room 106, Sacramento, CA 95814 or via the internet at www.treasurer.ca.gov.

Other Current Assets - The Fund considers current accounts receivable as other current assets.

Deferred Outflow and Deferred Inflow of Resources - Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period, and deferred inflow of resources is an acquisition of net assets by the government that is applicable to future reporting period. The Fund's deferred outflow of resources represents employer contribution for pensions. Unamortized net difference between projected and actual earnings on investments for pensions is reported under the Fund's deferred inflow of resources.

Claims Payable - The Fund establishes claims payable for claims received but not yet paid. As of December 31, 2015, the Fund's claims payable were $42,588,038 and $4,358,917 for CHFF and other external parties, respectively. The claims payable as of December 31, 2014 were $42,791,240 and $3,408,250 for CHFF and other external parties, respectively.

Reserves for Unpaid Losses and Loss Adjustment Expenses - The Fund establishes reserves for losses and loss adjustment expenses, to recognize the estimated liability for potential losses and related loss expenses in connection with borrower default on mortgage payments. The liability for unpaid losses and loss adjustment expenses resulting from mortgage insurance is an estimate and the loss reserve methodology changed in 2014. For 2015, the loss reserve methodology continues to include a variety of factors (i.e. unpaid delinquent balance on mortgage loans reported by servicers as of the close of the accounting period, loan status, unemployment rate, current LTV, Genworth's reinsurance percentage, and housing price index, etc.) to measure the impairment on a loan-by-loan basis in a regression analysis model. Estimates of IBNR (incurred but not reported) claims are implicitly included in this model.

There is a high level of uncertainty inherent in the evaluation of the required loss and loss adjustment expense reserves. Management has updated its loss reserve methodology to one it believes is more reasonable and accurate than the previous year. The ultimate costs of claims are dependent upon future events, the outcomes of which are affected by many factors. The Fund's claim reserving procedures and settlement practices, economic inflation, court rulings, real estate market conditions, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate cost of claims.

Changes in operations and management practices may also cause actual developments to vary from past experience. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments that may be material to reserves are reflected in the operating results of the periods in which they are made.

Premium Deficiency – Premium deficiency is estimated future premiums less estimated future claims and expenses on active mortgage insurance policies plus reserves for unpaid losses and loss adjustment expenses. A premium deficiency is therefore recognized in the balance sheet as an accrued liability, recorded as a Premium Deficiency Reserve for the excess amount. The liability for the premium deficiency reserve is an estimate and the premium deficiency methodology changed in 2015. The new methodology uses a variety of factors (i.e. unpaid delinquent balance on mortgage loans reported by servicers as of the close of the accounting period, loan status, unemployment rate (both State and County), borrower's FICO score at origination, current LTV, Genworth's reinsurance percentage, and housing price index, etc.) to measure the impairment on a loan-by-loan basis in a regression analysis model.

There is a high level of uncertainty inherent in the evaluation of the premium deficiency reserve. Management has changed its premium deficiency reserve methodology to one it believes is more reasonable and accurate than the previous model. The effects of the change in methodology were recognized in the current year. The ultimate cost of claims associated with active mortgage insurance policies are dependent upon future events, the outcomes of which are affected by many factors. The Fund's reserving procedures and settlement practices, economic inflation, court rulings, real estate market conditions, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate cost of claims.

Net Position - Fund net position is classified as invested in capital assets, restricted equity or unrestricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation and any related debt. Restricted net position represents net position that is restricted pursuant to the Agency's enabling legislation. Unrestricted net position represents net position not restricted for any purpose. There was no restricted net position at either December 31, 2015 or 2014.

CALIFORNIA HOUSING LOAN INSURANCE FUND

Operating Revenues and Expenses - The Fund's primary operating revenue is derived from premiums earned on private mortgage insurance written. The primary expenses are the expenses associated with the underwriting, acquisition, issuance, administration, and the reinsurance of private mortgage insurance products and policies, as well as the losses associated with these products and policies.

Recognition of Premium Income - Primary mortgage insurance policies are contracts that are generally non-cancelable by the insurer and provide payment of premiums on a monthly, annual, or single basis. Premiums written on a monthly basis are earned as coverage is provided. Premiums written on an annual basis are recorded as unearned premiums and amortized on a monthly pro rata basis over the year of coverage. Primary mortgage insurance premiums written on policies covering more than one year are referred to as single premiums. A portion of single premiums is recognized immediately in earnings, and the remaining portion is recorded as unearned premiums and amortized over the expected life of the policy.

Reinsurance - Effective March 1, 2003, the Fund entered into a reinsurance treaty and administrative services agreement with Genworth. This agreement cedes to Genworth a 75% quota share of the insurance risk for most loans insured by the Fund and provides for certain administrative services to be performed by Genworth through December 31, 2018. The Fund uses reinsurance to reduce net risk in force and optimize capital allocation.

Pensions - As part of the State, the primary government, the Fund contributes to the Miscellaneous Plan (the "Plan") and it is administered by the California Public Employees' Retirement System ("CalPERS"). The Plan is included in the Public Employees' Retirement Fund A ("PERF A"). PERF is comprised of and reported as PERF A, PERF B, and PERF C for accounting purposes. PERF A is comprised of agent multiple-employer plans, which include State and most public agencies rate plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. CHANGE IN ACCOUNTING PRINCIPLES

The Agency adopted GASB 68 and 71 for the year ended December 31, 2015. The cumulative effect of adoption of GASB 68 and 71 decreases the Fund's net position by $263.7 thousand. The Agency has restated net position as of December 31, 2014 by $263.7 thousand. Actuarial information as of the beginning of 2015 was not available since the measurement date of the actuarial valuation was June 30, 2014. Management believes any difference will not be material to the financial statements.

Net position, January 1, 2015 as previously stated	$ (62,203,347)
Cumulative effect of adoption of GASB 68	$ (263,065)
Cumulative effect of adoption of GASB 71	(602)
Net position, January 1, 2015, as restated	$ (62,467,014)

4. CASH, CASH EQUIVALENTS, INVESTMENTS AND INVESTMENT RISK FACTORS

The Fund utilizes a cash and investment pool maintained by the State Treasurer's office. Each account's portion of this pool is included in investment on the statement of net position.

Cash and Cash Equivalents - At December 31, 2015 and 2014, all cash and cash equivalents, totaling $37 thousand and $33 thousand, respectively, were covered by federal depository insurance or collateral held by the Agency's agent in the Agency's name.

Investments - Investment of funds is restricted by the Act, generally, to certain types of investment - securities, including direct obligations of the U.S. Government and its agencies, the State Treasurer's Pooled Money Investment Account, and other financial instruments.

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed-income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. It is the investment policy of the Fund to invest substantially all of its funds in fixed income securities, which limit the Fund's exposure to most types of risk. For the investments in the Surplus Money Investment Fund cost approximates market.

Investments by type at December 31, 2015 and 2014, consist of the following:

	2015	2014
Surplus Money Investment Fund — State of California	$ 5,000	$ 4,000

Credit Risk - Fixed income securities are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. At December 31, 2015, the Fund does not have any investments exposed to credit risk.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. At December 31, 2015, the Fund did not have any investments exposed to custodial credit. All investments are held by the State of California.

Concentration of Credit Risk - Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the Fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. At December 31, 2015, the Fund does not have any investments exposed to concentration of credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of fixed income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. At December 31, 2015, the Fund does not have any debt investments that are highly sensitive to changes in interest rates.

5. RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following tables summarize the changes in the reserves for unpaid losses and loss adjustment expenses for the years ended December 31, 2015 and 2014. The first table presents reserves on a gross basis (before reinsurance) and the second table presents the reserve on a net basis (after reinsurance). The total net reserve for loss and loss adjustment is reflected in the financial statements.

Gross	**2015**	**2014**
Gross reserve for loss and loss adjustment — beginning of year balance	$ 25,436,994	$ 63,836,492
Incurred (recovered) related to:		
Provision attributable to the current year	3,674,084	12,406,364
Change in provision attributable to prior years	(8,666,090)	(29,389,179)
Total incurred	(4,992,006)	(16,982,815)
Payments related to:		
Current year	(862,357)	(853,465)
Prior years	(12,620,086)	(20,563,218)
Total payments	(13,482,443)	(21,416,683)
Gross reserve for loss and loss adjustment — end of year balance	$ 6,962,545	$ 25,436,994

Net of Reinsurance	**2015**	**2014**
Net reserve for loss and loss adjustment — beginning of year balance	$ 7,167,077	$ 18,177,904
Incurred (recovered) related to:		
Provision attributable to the current year	1,107,676	3,335,231
Change in provision attributable to prior years	(866,986)	(8,160,276)
Total incurred	240,690	(4,825,045)
Payments related to:		
Current year	(194,138)	(213,252)
Prior years	(4,823,511)	(5,972,530)
Total payments	(5,017,649)	(6,185,782)
Net reserve for loss and loss adjustment — end of year balance	$ 2,390,118	$ 7,167,077

The change in provision attributable to prior year (net of reinsurance) decreased by $0.9 million for the year ended December 31, 2015 due to the decrease in loan delinquencies from the year ended December 31, 2014. The change in provision attributable to prior year (net of reinsurance) decreased by $8.2 million for the year ended December 31, 2014 from the year ended December 31, 2013 is due to change in loss reserve methodology as explained in Note 2 and decrease in loan delinquencies.

Reserves for loss and loss adjustment expenses relate to delinquent loans, net of reinsurance. Such estimates were based on a variety of factors, which management believes are most representative of factors needed to measure expected future losses at the time of estimation. As a result of the extended period of time that may exist between the report of a delinquency and claim payment thereon, significant uncertainty and variation exist with respect to the ultimate amount to be paid because economic conditions and real estate markets will change.

6. REINSURANCE

Effective March 1, 2003, the Fund entered into a 75% quota share reinsurance agreement with Genworth to reinsure most (currently, approximately 82%) of the Fund's portfolio. Under the terms of this agreement, the reinsurer will indemnify the Fund for 75% of all losses paid on the insured loans to which the Fund cedes 64.5% of the related premiums. The treaty was amended for loans insured on or after May 1, 2008 to cede 67% of premiums collected and amended again on April 1, 2009 to cede 69% of premiums collected on loans insured on or after that date. However, there are no loans currently ceded at 69%. The Fund's reinsurance agreement typically provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy its obligations under the reinsurance agreement. The amount of earned premiums ceded to Genworth for the years ended 2015 and 2014 was $3.0 million and $4.4 million, respectively.

According to the terms of the reinsurance agreement, Genworth's reinsurance is for a period up to the end of the tenth calendar year for each existing book year. Therefore, insurance policies issued in 2005 book year had reinsurance through December 31, 2014. The Agency elected not to renew the reinsurance on the expiring 2005 book. If the reinsurance is not renewed after the expiration date, the Fund receives 100% of the related premiums, pays for 100% of any related claims, and receives Genworth's reserves set aside for the related book year. In 2015, the Fund received $2.0 million from Genworth's reserve set aside for book year 2005. To date, the Fund has received $3.8 million in expired book revenue from Genworth.

7. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND

Certain administrative and operating expenses charged to the Fund are provided by the Agency. These expenses, initially paid from the CHFF, include office space, business services, legal services, accounting services, information systems support, and human resource support services. The Fund is charged monthly for these expenses and a payable is recorded. For the years ended December 31, 2015 and 2014, total expenses allocated to the Fund by the Agency were $239,660 and $359,221, respectively.

As part of CalHFA's Loan Modification Program, Genworth remits pre-claim advance payments to the Fund. The payments received are remitted directly to the CHFF. The total pre-claim advance payments due to CHFF were $113,107 and $119,717 at December 31, 2015 and 2014, respectively.

8. PENSION PLAN

Plan Description, Benefits Provided and Employees Covered: As part of the State, the primary government, the Fund contributes to the Miscellaneous Plan (the "Plan") and it is administered by the California Public Employees' Retirement System ("CalPERS"). The Plan is included in the Public Employees' Retirement Fund A ("PERF A"). PERF is comprised of and reported as PERF A, PERF B and PERF C for accounting purposes. PERF A is comprised of agent multiple-employer plans, which include State and most public agencies rate plans. The Plan is a defined benefit pension plan. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions and membership information are listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

Prior to GASB 68 Implementation: GASB 68 is effective for reporting periods beginning after June 15, 2014. Prior to the implementation of GASB 68 in the year ended December 31, 2014, the net pension liability was not reported. For the CalPERS fiscal year ended June 30, 2014, the employees' contribution rates ranged from 1.5% to 11% of annual payroll and the employer contribution rates were 20.99% and 21.12% of annual payroll. Additionally for the period ended December 31, 2014, the Fund contributed $28,210 which was equal to the required contributions for the year.

GASB 68 Accounting Valuation Report:s: The State requested CalPERS GASB 68 Accounting Valuation Reports for the Plan. Copies of these reports may be obtained from the State Controller's Office, Division of Accounting and Reporting.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers must be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the employees' contribution rates ranged from 3% to 11% of annual payroll and the employer's contribution rates were 23.51% and 24.20% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the Plan for the year ended December 31, 2015 was $23,322.

Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions: As of December 31, 2015, the Fund reported a liability of $243,885 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2015 and was based on the Fund's pensionable compensation as a percentage of the State's total pensionable compensation. As of June 30, 2015, the Fund's proportionate share was 0.001%.

For the year ended December 31, 2015, the Fund recognized pension expense of $29,295. As of December 31, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources:

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual experience	$ 4,454	-
Differences between projected and actual earnings on pension plan investments	25,128	$ 30,452
Differences between Fund contributions and proportionate share of contributions	-	285
Changes in proportion	-	16,135
Changes of assumptions	-	8,510
Fund contributions subsequent to the measurement date	12,010	-
	$ 41,592	$ 55,382

As of December 31, 2015, the $12,010 reported as deferred outflows of resources related to pensions resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	
2016	$ (10,989)
2017	(10,958)
2018	(10,135)
2019	6,282

Actuarial Assumptions: For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2015 total pension liability was based on the following actuarial assumptions:

Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65%
Post retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

For the measurement period ended June 30, 2014, the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2014 and 2013 total pension liabilities were based on the following actuarial assumptions:

Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%, net of pension plan investment and administrative expenses; includes inflation
Post retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies

For the measurement period ended June 30, 2015, the mortality table was based on CalPERS' specific data. The tables include 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

All other actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

The long term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all of the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

For the measurement period ended June 30, 2015, the rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocations were adopted by CalPERS effective July 1, 2014. For the measurement period ended June 30, 2015, the following table reflects long-term expected real rate of returns by asset class:

Asset Class	Target Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19	0.99	2.43
Private Equity	10	6.83	6.95
Real Estate	10	4.50	5.13
Inflation Sensitive	6	0.45	3.36
Infrastructure and Forestland	2	4.50	5.09
Liquidity	2	(0.55)	(1.05)
	100%		

[1]An expected inflation of 2.5% used for this period
[2]An expected inflation of 3.0% used for this period

Discount Rate: The discount rate used to measure the total pension liability for the measurement period ended June 30, 2015 was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rates used for the current and previous measurement periods were adequate and the use of the municipal bond rate calculation was not necessary. The current and previous long term expected discount rates used in the current and previous measurement periods were applied to all plans in the Public Employees' Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained via the internet at www.calpers.ca.gov under the GASB 68 section.

Sensitivity of the Fund's Proportionate Share of the Net Pension Liability to Changes in Discount Rate: The following presents the Fund's proportionate share of the net pension liability as of the June 30, 2015 measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Fund's net pension liability	$ 344,454	$ 243,885	$ 159,508

Pension Plan Fiduciary Net Position: As of June 30, 2015, the Plan's fiduciary net position was $68.1 billion. Detailed information about PERF A's fiduciary net position is available via the internet at www.calpers.ca.gov under Forms and Publications.

Payable to the Pension Plan: As of December 31, 2015, the Fund did not report a payable related to pension contributions.

9. OTHER POSTEMPLOYMENT BENEFITS

GASB Statement 45 requires states and local governments to publicly disclose the future dollar amount of their obligations to pay for Other Postemployment Benefits (OPEB), like healthcare, that are provided to retired employees, including retired public employees. The OPEB is an agent single employer defined benefit healthcare plan administered by CalPERS. State Controller's Office (SCO) sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. Based on the SCO's OPEB calculation, the Fund allocated annual OPEB cost was $68,000, and the Fund allocated contributions was $26,000 for the year ended December 31, 2015. The State Controller's Office estimated the Fund's unfunded OPEB costs to be $774,000 and $732,000 for the years ended December 31, 2015 and 2014, respectively, and this liability was added to Personal Services in the respective year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

10. LITIGATION

On June 14, 2002, the Agency filed a complaint in the case of California Housing Finance Agency (CalHFA) v. Hanover California Management and Accounting Center Inc., (HC) et al, Orange County Superior court #02CC10634 (Action). The trial in this matter has concluded and the Agency prevailed on all causes of action. The jury awarded $6.7 million in damages, prejudgment interest of $1 million, and finally the jury found that the defendants acted with malice, and awarded total punitive damages of $1.5 million. The defendants appealed the judgment and the Court of Appeal issued a decision affirming the judgment in full. The decision is now final.

The amounts received from the defendants were $7,200 and $7,200 during the years ended December 31, 2015 and 2014, respectively which is recorded as other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. To date, the Agency has received approximately $2.9 million.

Certain other lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Fund. Based upon information available to the Agency, its review of such lawsuits and claims and consultation with counsel, the Agency believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund's financial statements.

11. SUBSEQUENT EVENTS

In February 2016, Moody's reaffirmed the "Ba1" rating of Genworth Mortgage Insurance Corporation with a stable outlook.

CALIFORNIA HOUSING LOAN INSURANCE FUND

On June 27, 2016 Senate Bill No. 837 was approved by the Governor. This bill repeals provisions related to the Director of Insurance of the Fund and instead establishes the director of enterprise risk management and compliance within the agency. The Agency will continue to oversee and manage the Fund but will no longer be required to be budget a position within the Fund. Instead, the Agency will charge the Fund a monthly management fee beginning July 2016. Furthermore, this bill also changes the annual audit requirement of the Fund to the requirement of obtaining an annual agreed-upon procedures (AUP) engagement of the insurance fund's books and accounts provided that the AUP report is made available to the Governor, the chairperson and vice-chairperson of the Senate and Assembly housing policy committees, the Senate and Assembly budget committee, and the Joint Legislative Budget Committee no later than November 1 of each year. This will save the Fund money as the cost of an AUP engagement is lower than an audit.

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Miscellaneous Plan
Last Measurement Period Ended June 30

	2015
Fund's proportion of the net pension liability	0.001%
Fund's proportionate share of the net pension liability	$ 243,885
Fund's covered-employee payroll	$ 91,890
Fund's proportionate share of the net pension liability as a percentage of its covered-employee payroll	265.41%
Plan fiduciary net position as a percentage of the total pension liability	70.68%

SCHEDULE OF FUND CONTRIBUTIONS
Miscellaneous Plan
Last Measurement Period Ended June 30

	2015
Contractually required contribution	$ 23,277
Contribution in relation to the contractually required contribution	(23,277)
Contribution deficiency (excess)	-
Fund's covered-employee payroll	$ 91,890
Contributions as a percentage of covered-employee payroll	25.33%

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were derived from the June 30, 2013 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2013 Funding Valuation Report.
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2013 Funding Valuation Report.
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50 Net Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
California Housing Loan Insurance Fund
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a Component Unit of the State of California, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016