

S&P Affirms CA Housing Loan Insurance Fund 'A+' Rtg.

NEW YORK-(BUSINESS WIRE)-June 10, 2003-(Standard & Poor's) June 10, 2003-Standard & Poor's Ratings Services said today that it affirmed its 'A+' counterparty credit and financial strength ratings on the California Housing Loan Insurance Fund (the Insurance Fund) based primarily on the explicit support of California Housing Finance Agency (CalHFA) through an inter-fund agreement under which CalHFA-in its capacity as administrator of the fund-commits to make up to \$100 million in subordinated funds available to pay claims by Insurance Fund if necessary.

Standard & Poor's also said that the outlook on the Insurance Fund is stable.

The Insurance Fund is one of two continuously appropriated funds administered by CalHFA, the state agency that-through the much larger California Housing Finance Fund (CHFF) and subsequent permanent bond financing-buys residential loans in California. The Insurance Fund operates as an insurer of such loans, though most of the loans it insures are ultimately funded not by the CalHFA bonds but by such third parties as Fannie Mae, Freddie Mac, the state personnel retirement system, and the state teachers' retirement system.

"In addition to CalHFA's explicit support, it has given an oral assurance to Standard & Poor's that the Insurance Fund's risk-to-capital ratio will remain less than 10x," said Standard & Poor's credit analyst Charles Titterton. "An added benefit to the rating is an insurance and administrative services agreement between CalHFA and General Electric Mortgage Insurance Corp. ('AAA' financial strength rating)."

The Insurance Fund's mission is to facilitate access to homeownership in California for people who are hard to qualify for a mortgage loan. Management's target market clientele includes individuals who have low to moderate income but who perform vital jobs in areas where the cost of living is high.

Since its formation, the Insurance Fund has operated profitably and with an extremely conservative balance sheet. To date, the scope of operations has been very small, and activity

-more-

has been geographically concentrated not just in California but in high-cost parts of the state, such as the coastal areas. Furthermore, its public purpose mission exposes it to losses that might not comport with the level of premium charged to the extent this relationship characterizes the operations of commercial mortgage insurers.

The Insurance Fund has solid support from CalHFA and a very conservative operating history. Standard & Poor's believes that management could substantially expand volume, aided by a forthcoming capital infusion of \$85 million made available by passage in a referendum of Proposition 46, a voter initiative. This amount will be added to the current \$43 million of fund equity. The \$128 million in equity is very large compared with the \$12 million of gross premium written in 2002, which has sparked concerns that the broader selection criteria that could be contemplated by management as it prepares to use this additional capital could produce substantially higher losses. Currently, neither the Insurance Fund nor CalHFA has planned to increase the loss profile for loans insured or alter its target market or mission.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Credit Ratings Actions.

Copyright 2003, Standard & Poor's Ratings Services

CONTACT: Standard & Poor's Charles Titterton, New York 212/438-7247.

###