

# MOODY'S ASSIGNS FOLLOWING RATINGS TO \$200 MILLION CALIFORNIA HOUSING FINANCE AGENCY'S HOME MORTGAGE ...

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MOODY'S ASSIGNS FOLLOWING RATINGS TO \$200 MILLION **CALIFORNIA HOUSING FINANCE AGENCY'S HOME MORTGAGE REVENUE BONDS**, Aa2/VMIG 1 2003 SERIES M - Aa2 2003 SERIES N - OUTLOOK STABLE.

AFFIRMS RATING OF Aa2 ON \$5.8 BILLION OF OUTSTANDING PROGRAM BONDS

Moody's Investors Service

## OPINION

Moody's Investors Service has assigned the rating of Aa2/VMIG 1 to the \$150 million **California Housing Finance Agency's** Home Mortgage Revenue Bonds, 2003 Series M and Aa2 to the \$50 million 2003 Series N. The VMIG 1 reflects the liquidity provided by the Stand by Bond Purchase Agreement (SBPA) provided by the Bank of America, rated Aa1/P-1, and the limited likelihood of termination prior to its stated expiration. The VMIG 1 will expire upon the earliest of conversion or expiration of the SBPA. The Aa2 rating reflects the program's strong financial position as evidenced by a program asset to debt ratio of 1.063, and from its sound portfolio composition and active program management. The outlook for the program is stable. The bonds are special obligations of the Agency and are secured by the underlying single family mortgage loans in the portfolio. The current offering is being issued to provide funds to originate new single family mortgages.

Moody's believes that the program's strong financial condition, as illustrated by a program asset to debt ratio of 1.063 as of June 30, 2003, is expected to continue to grow driven by positive program net revenues throughout the life of the bonds. To the extent that the Agency continues to issue variable rate bonds, as in the case with the issuance of the 2003 M and N, there is interest rate risk to the program. However, we do not expect this risk to have a negative impact on the program's parity rating in the near term due to the utilization of various swap agreements and management's intent to call out those bonds from surplus revenues of the program if the bond rates rise significantly above the loan rates associated with those floating rate bonds. There is also a level of counterparty risk given the Agency's use of various swap and liquidity providers. However, the Agency's diversification of these counterparties provides important mitigation of this exposure. Significant reductions in overall cost of funds and consequent improvements in overall profitability ratios, which at 17.61% as of June 30, 2003 is relatively stable from 2002, also mitigates exposure.

Moody's finds that the sound loan portfolio and its insurance provisions provides further security by minimizing potential asset deterioration. The bond program's pledged portfolio of single family loans exhibits delinquency statistics that are in line with the state average and slightly below the U.S. average

for loans with similar types of mortgage insurance. Approximately 86% of the loan portfolio is FHA-insured, 11% is **CalHFA's** mortgage insurance (claims paying ability rated Aa3), 2% is VA guaranteed with the remaining 1% insured by private insurers. All loans covered by **CalHFA's** mortgage insurance, the VA and other primary mortgage insurers are covered for 50% of the outstanding loan balance.

Moody's expects the strong insurance protection on the loans to protect the program from significant losses associated with potential defaulted loans. We also believe that losses not covered by mortgage insurance will be covered by the large fund balance and surpluses generated by the program.

We have a favorable view of **CalHFA's** management capabilities. The Agency has a capable staff with a strong financial background that has demonstrated its ability to limit the financial losses associated with loan delinquencies. The Agency has experienced substantial net gains on foreclosed loans since the program's inception in 1982. **CalHFA's** experience with these loans has proven its ability to maintain financial stability during stressful performance scenarios. **CalHFA's** large staff has vast experience in all aspects of program management and has withstood leadership changes in the past without disruption to its bond programs.

Moody's believes that the standby bond purchase agreement (SBPA) from the Bank of America for the Series 2003 M variable rate bonds, combined with CalHFAs own high credit quality, provides strong support for payment of tendered bonds. The SBPA is a contingent obligation of the bank; under certain circumstances, it will not be obligated to provide funds and can terminate the agreement without notice. These circumstances are: (1) failure to pay principal or interest on the bonds to; (2) the Agency becomes subject to insolvency; (3) payment default on parity debt obligations or acceleration of parity debt obligations; (4) invalidity of the agreement or the resolution; (4) failure to pay principal and interest, in excess of \$10 million, on any GO of the Agency; or failure by the Agency to pay a final judgment amount against the Agency in excess of \$5 million; and (5) rating of the bonds or other parity debt of the Agency falls below Baa3. Moody's considers the likelihood of any of these events occurring to be remote. The VMIG1 rating expires upon expiration of the SBPA, or upon earlier termination of the SBPA or conversion to another mode.

Moody's also believes that the program's legal provisions help to maintain ongoing credit strength via the establishment of sufficient reserve funds and cash flow requirements. The Agency has a debt service reserve fund sized at 3% of the outstanding loan balance to cover against any liquidity difficulties.

Additionally, the Agency has a separate reserve, the Supplemental Bond Security Account with an outstanding balance of approximately \$50 million, most of which is earmarked for the Home Mortgage Revenue Bonds as another source of liquidity. Although the program allows for funds to be transferred out of the program following parity maintenance, the Agency rarely takes money out of this indenture. Instead, **CalHFA** generally transfers money into the program from general fund resources to pay for the cost of issuing new bond series.

## **OUTLOOK**

The outlook for this program is stable. Strong financial performance and active program management are expected to allow the program to remain financially viable throughout all but the most severe housing markets or economic downturns. Risks to this program are more likely to result from Agency management policy changes, however such actions are not expected over the foreseeable future.

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