Agenda Item 6 –
Informational Workshop discussing
Board governance and overview
Of CalHFA’s organizational structure
and business operations

January 17, 2013
Are we going to lend again?
High-level structure of CalHFA's balance sheet
Four high level risks

1. Single-family loan losses
2. Reimbursing the G-O for swap net pmts -> $32Mn on 8/1/12
3. Meeting collateral demands
4. Replacing TCLP by 2015

CalHFA
General Obligation (A-/A3)

MF-I
TCLP-backed VRDO
$381Mn

Non-bond assets
$300Mn in liquid assets

Advancing swap net pmts for HMRB

Swap Counterparties
M-to-M (1/2/13): $325Mn
DV01: $1Mn
Avg life: 6 yrs

HMRB
Special Obligation (BBB/Baa2)

TCLP-backed VRDO
$1,130Mn
1) High single-family delinquency rates have resulted in steep loan losses
... and precipitated a steep decline in credit ratings

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<tr>
<th>CalHFA General Obligation</th>
<th>HMRB (Special Obligation)</th>
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<tbody>
<tr>
<td><strong>Current rating</strong></td>
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<tr>
<td><strong>S&amp;P's</strong></td>
<td><strong>Moody's</strong></td>
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<td>A-</td>
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<td>Negative Outlook</td>
<td>Watch for Downgrd</td>
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<tr>
<td>Aa2</td>
<td>AA</td>
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<td>Aa3</td>
<td>AA-</td>
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<td>A+</td>
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<td>07/22/09</td>
<td>A1</td>
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<tr>
<td>A</td>
<td>A3</td>
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--- Single-A threshold ---

--- Investment grade threshold ---
HMRB has several layers of credit enhancements, but their credit worthiness has weakened.

- **HMRB Special Obligation (BBB/Baa2)**
  - $277Mn equity
  - (8/30/12 cash basis)

- **CalHFA MI Fund Limited Obligation**
  - (withdrawn/withdrawn)
  - Risk-in-force (8/31/12): $133Mn

- **Genworth**
  - (B rated)
  - Risk-in-force (8/31/12): $362Mn

- **Hardest Hit Funds**

- **GAP**
Loss mitigation strategy: modify more loans and acquire more assistance from KYHC
2) HMRB can only reimburse the G-O if it maintains investment grade ratings
3) Collateral posting required doubles if the G-O is downgraded one-notch

\[
\begin{align*}
\text{A3/A-} & \quad \text{Remaining Cash} \quad \text{Collateral Posting Required} \\
\text{Baa1/BBB+ (rating shock)} & \quad \$100 \\
\end{align*}
\]
Risk mitigation strategy: exercise swap par termination options

- Projected Collateral with A3/A-
- Projected Collateral with Baa1/BBB+ (rating shock)

Mark-To-Market and Projected Mark-To-Market as of 2012-08-01
4) Replacing TCLP is only possible if the Agency has decent and stable ratings

- In 2009, the US Treasury established TCLP to:
  o aid HFAs with expiring credit support facilities for variable rate bonds that were difficult or impractical to replace.

- The Agency continues to rely on TCLP to support its financial viability.

- To replace TCLP, the Agency needs to:
  o stabilize its credit ratings at decent levels
  o reduce the TCLP balance to an amount that can be absorbed by the private market
To lend the Agency needs to borrow

- Historically borrowed from the Municipal bond market by issuing tax-exempt Mortgage Revenue Bond

- Need a functioning capital market
  - Though inefficient, this borrowing channel is functional today.
  - Would issue bonds, however, under new Special Obligation indentures
Bond issuances also require seed capital and lending also requires capital set-aside

- e.g. the $70Mn MF risk-share deal in Dec required:
  - $2.2Mn (3%) of upfront cash contribution
  - $4.9Mn (7%) of capital set-aside

- Source of cash/capital:

...same source to meet collateral demands
Yes, we can!
But the use of cash/capital must be judicious

- Cannot repeat the production levels of yesteryear
  - single-family: $1.6Bn in 2006
  - multi-family: $240Mn in 2004

- Cash/capital intensity for near-term lending initiatives are lower than historical:
  - MF will require more: lender/issuer
  - SF will require less: securitizing FHA loans for TBA