Single Family Lending

Proposed CalHFA First Mortgage Loan Programs

January 17, 2013
Objective

In accord with our Mission*, provide low and moderate income first-time homebuyers the opportunity to secure a responsible low interest rate mortgage with bond-funded down payment and Mortgage Credit Certificate Tax Credit assistance. Year 1 volume target, $300 million.

*CalHFA Mission Statement:
To create and finance progressive housing solutions so more Californians have a place to call home.
Strategies

- Develop products that serve the needs of CalHFA’s distinct first-time homebuyer population
- Design products that address the Governor’s sustainability, energy efficient and targeted economic development policies
- Develop lessons-learned matrix and review HFAs’ TBA product characteristics and performances
- Minimize risk by tightening borrower underwriting requirements
- Remove loan risks by using Master Servicer & Hedging Facilitator services
- Limit CalHFA program to FHA products due to lack of a competitive advantage vs. conventional loans:
  - Inability to participate in the HFA Fannie Mae Agreement because of the Agency’s current credit rating
  - Lack of CaHLIF Mortgage Insurance fund differential
- Generate revenue to offset administrative costs and address Rating Agency concern
**Borrower Protection**

- CalHFA Homebuyer Education required for all borrowers
  - FHA does not require HBE
- Maximum total Debt-to-Income (DTI) of 45%
  - FHA will allow as per AUS underwriting findings up to 60%
- 640 minimum FICO score requirement
  - FHA allows for 580 minimum FICO score
- Borrower contribution towards down payment:
  - $1,500 to $2,500 depending on FICO score
  - FHA will allow the borrowers to be refunded all cash contributions

**Agency Risk Mitigation**

- Market fluctuation risk
  - The use of a Hedging Facilitator will eliminate the market risk to Agency.
  - The Hedger will take on all market risk
- Underwriting & Loan Servicing Representations (Reps) & Warranties
  - The Master Servicer will be servicing all of the loans, CalHFA will not be servicing any of the loans for this program
  - The use of a Master Servicer will eliminate the underwriting & loan servicing Reps and Warranties to the GSE
  - The Master Servicer will take on all underwriting & loan servicing Reps and Warranties
CalHFA TBA Program Process Overview

1. Lender underwrites the loan and sends the file to CalHFA for Compliance Review
2. CalHFA approves the loan file and issues a Conditional Approval to the lender so they can close the loan
3. Lender closes the loan (by day 45) and ships the file to the Master Servicer for purchase within 10 days of loan closing

4. Hedge Facilitator will publish the settlement and purchase price for each loan including accrued interest and SRP
5. Hedge Facilitator will monitor purchase activity and provide pooling instructions to Master Servicer
6. Master Servicer reviews the file and purchases the loan
7. On pool settlement date, Master Servicer delivers the MBS to Hedge Facilitator for purchase. CalHFA will reimburse the Master Servicer for any DAP advancements separately
8. On settlement date the Hedge Facilitator will wire remaining proceeds to CalHFA
Proposed New Loan Programs

- CalHFA FHA Advantage
  - Built-in down payment assistance

- CalHFA FHA
  - With CalHFA down payment assistance program targeted to high cost growth areas
CalHFA FHA Advantage

- Financed through sale of premium-priced mortgages currently ranging from 104% to 106% of par
  - Sold as Mortgage Backed Securities (Ginnie Mae MBS) through a Hedging Facilitator
  - Pricing will allow for the creation of the down payment assistance loan (DPA)

- First mortgage rate will be approximately 50 basis points over the market rate to finance down payment assistance. (e.g. market rate 3.39% + .50% = 3.89% first mortgage rate)
- Down payment assistance will range from 3% to 4.5% in high cost areas
- Zero interest rate deferred payment on the DPA portion
- Can be combined with CalHFA’s California Homebuyer’s Downpayment Assistance Program (CHDAP), Extra Credit Teacher Program (ECTP), or Mortgage Credit Certificate program (MCC)
CalHFA FHA

- Financed through the sale of market rate mortgages and sold as MBSs

- Can be combined with CalHFA’s CHDAP, ECTP or MCC programs

- Agency will use approximately $9 million in Home Purchase Assistance funds for down payment assistance targeted to high cost areas
Operational Policies

- All programs will be capped at 103% combined loan-to-value

- All loans will require a cash investment from the borrowers
  - Tiered based on the borrowers' credit score (example)
    - 640 – 679 $2,500 required
    - 680 – 850 $1,500 required

- All loans will require a maximum Debt-to-Income (DTI) ratio regardless of automated underwriting system results
  - 45% maximum total DTI

- CalHFA Homebuyer Education based on national standards for all borrowers

- Program will require a Master Servicer and a Hedging Facilitator
Future Considerations

- Developing transit neighborhood program to increase CHDAP loan amount from 3% to 5%.

- CalHFA FHA Energy Efficient Mortgage (EEM) + Grant
  - This loan will require CalHFA statutory change to make the Grant
    - Financed through the sale of premium priced mortgages and sold as MBSs
    - Premium price will allow for the creation of the EEM Conditional Grant
    - Can combined with CalHFA’s CHDAP, ECTP or MCC programs