Agenda Item 6 and 7 –

March 7, 2013
Roadmap for today’s discussions

1. Update on swap collateral posting risk
   Why is this risk better contained today? Nevertheless, how much cash is set-aside for this risk?

2. Proposed capital allocation
   What are the sources to support the Agency’s operating expenses for the next 3 years?

3. Update on SF lending program
   Agenda Item 7
   Yes, we can!
   How much money can be allocated to support lending?

4. Update on MF lending program
   Agenda Item 6

5. Financing resolutions for 2013
   Agenda Item 8 and 9
Update on
swap collateral posting risk
Why do we have interest rate swaps?

- Intended to hedge the floating interest rate risk of variable-rate financings
Declining rates result in negative swap valuations

- Weekly 6 Year LIBOR Rate (Left-Side Scale)
- Weekly Mark to Market (Millions; Right-Side Scale)
The most negative valuation is likely behind us
The collateral posting risk is better contained

- Weekly 6 Year LIBOR Rate (Left-Side Scale)
- Weekly Collateral Postings (Millions; Right-Side Scale)

Highest collateral: $132Mn

S&P Downgrade GO to A-

Today: $69Mn

2/1/11 $2.8Bn notional
2/1/12 $2.3Bn notional
8/1/12 $2.1Bn notional
2/1/13 $1.9Bn notional
Why do we have to post collateral?

- As the credit rating of Agency's GO suffered successive downgrades, the collateral posting thresholds became lower and lower.

<table>
<thead>
<tr>
<th>Collateral Thresholds</th>
<th>Original Thresholds</th>
<th>1st Restructuring</th>
<th>2nd Restructuring</th>
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<tbody>
<tr>
<td>AA-/Aa3</td>
<td>infinity</td>
<td></td>
<td></td>
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<tr>
<td>A+/A1</td>
<td>$40Mn</td>
<td>$55Mn</td>
<td>$55Mn</td>
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<tr>
<td>A/A2</td>
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<td>$50Mn</td>
<td>$50Mn</td>
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<tr>
<td>A-/A3</td>
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<tr>
<td>BBB+/Baa1</td>
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<td>$20Mn</td>
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Have aggressively reduced swap notional

- Expected Notional Outstanding
- Actual Notional Outstanding

Difference of $1.7Bn (62%)
Projected swap valuations decline over time

- Maximum Notional (left-hand scale)
- Minimum Notional (left-hand scale)
- Uncallable Swaps (left-hand scale)
- Mark-To-Market and Projected Mark-To-Market as of 2012-02-01

<table>
<thead>
<tr>
<th>Year-Month</th>
<th>Valuation (Millions)</th>
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<tbody>
<tr>
<td>2013-Feb</td>
<td>$3,000</td>
</tr>
<tr>
<td>2013-Aug</td>
<td>$2,500</td>
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<tr>
<td>2014-Feb</td>
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<tr>
<td>2014-Aug</td>
<td>$1,500</td>
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<tr>
<td>2015-Feb</td>
<td>$1,000</td>
</tr>
<tr>
<td>2015-Aug</td>
<td>$500</td>
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</table>
Projected collateral requirements also decline
The collateral posting risk is better contained today
Proposed capital allocation
High-level structure of CalHFA’s balance sheet

HMRB
Special Obligation
(BBB/Baa2)
- bond indenture: $3.146Mn
- bonds outstanding

MF-III
- bond indenture: $657Mn
- bonds outstanding

HPB
- bond indenture: $70Mn
- bonds outstanding

CalHFA
General Obligation
(A-/A3)

Non-bond assets:
- $435Mn of unencumbered cash and loans
- of which $298Mn are cash/securities

Operating Account
Housing Assistance Trust
Emergency Reserve

Contract Administration
- non-Agency funds
Four high level risks

- **CalHFA General Obligation (A-/A3)**
  - MF-III: TCLP-backed VRDO $343Mn
  - HPB: TCLP-backed VRDO $27Mn
  - Non-bond assets: $298Mn of cash/securities

- **Swap Counterparties**
  - M-to-M (2/20/13): $275Mn
  - DV01: $1Mn
  - Avg life: 6 yrs

- **Advancing swap net pmts for HMRB**

- **HMRB Special Obligation (BBB/Baa2)**
  - TCLP-backed VRDO: $1.139Mn

- **(1) Single-family loan losses**

- **(2) Reimbursing the G-O for swap net pmts**
  - $29Mn on 2/1/13

- **(3) Meeting collateral demands**

- **(4) Replacing TCLP by 2015**
Total unencumbered cash and loans = $435Mn
Even without contributions from HMRB & MF-3, still able to cover the Agency’s expenses
Improved cash position with fewer unknowns

A3/A- (current rating)

- Remaining Cash: $229
- Collateral Required on 2/20/13: $69

Baa1/BBB+ (rating shock)

- Remaining Cash: $140
- Collateral Required on 2/20/13: $158
Proposed allocation of liquid capital

- **Available cash, $60**
- **Set-aside for 2 years of Operating Expenses, $80**
- **Set-aside for Collateral Posting, $158**
- **Debt Management, $30**
  - MF Warehouse, $27
  - SE Warehouse, $3

**Baa1/BBB+ (rating shock)**

**Baa1/BBB+ (rating shock)**
Rationalizing the proposed allocation

- 9:1 allocation between MF:SF warehouse lines
  - $27Mn for MF: facilitate the timing of loan closings to bond closings
  - $3Mn for SF: advance funding of DPA (down-payment assistance) loans

- 1:1 allocation between program warehouse lines and debt management
  - $30Mn for program warehouse lines
  - $30Mn for debt management
What if.. testing lower rating with lower rates

- A3/A- (current rating): $207
  - Remaining Cash: $207
  - Collateral Required with 50 bps shock: $91

- Baa1/BBB+ (rating shock): $102
  - $102

in millions
... can meet the stress scenario

- Capital allocation:
  - Debt Management, $30
  - MF Warehouse, $27
  - SF Warehouse, $3
  - $80
  - $158

- Downgrade & lower rates:
  - Debt Management, $30
  - MF Warehouse, $27
  - SF Warehouse, $3
  - $42
  - $196

Set-aside for 2 years of Operating Expenses
Set-aside for Collateral Posting
Yes, we can support lending by providing $30Mn of warehouse lines (not grants, not subsidies)
Agenda Item 7 - Update on SF lending program
Use of the TBA funding model

- At the January Board meeting, we introduced a single-family TBA funding model in conjunction with two DPA products (CHAP & CHDAP)

- Today, we are presenting the risks associated with this TBA model

- We are currently working on various SF loan products which will utilize the TBA model and best serve the dynamic housing needs of the people of California

- In May, we will formally ask the Board for approval to use the TBA model and associated products
Direct funding of the DPA loans

- It is possible that we may have to fund certain down payment assistance loans at the loan closings, in advance of the sale of the MBS.

- The Agency is creating a warehouse to fund these DPA loans, if necessary.
What is a TBA?

- In a TBA (To-Be-Announced) transaction, the parties agree on a **price** for delivering a given **volume** of MBS at a **specified future date**.

- What are the risks for the lender?
  - **price**: must deliver a specific coupon
  - **volume**: must deliver a specific loan amount
  - **specified future date**: must deliver loans on a specific date
Delivery risks turn into interest rate risk

**On 3/1/13**
- Lender takes down a commitment

**On 5/1/13**
- Commit to deliver
- $1Mn Ginnie Mae
  - 4% coupon
  - Settlement price: 100%

- Successful delivery
  - Will receive $1,000,000

- Failed delivery
  - Prevailing rate < 4%
  - Pays premium
  - Prevailing rate > 4%
  - Receives discount

*CalHFA will pay a Hedging Facilitator to take the interest rate risks associated with failed delivery.*
**Proposed risk mitigation strategy**

- Failed delivery exposes the lender to interest rate risk because the trade will settle at market value

- The Agency will pay a Hedging Facilitator to take the financial risks associated with TBA lending

- Will have counterparty risk to the Hedging Facilitator

- Master Servicer assumes loan underwriting and servicing risks
Funding of DPA with premium

Upon Sale of MBS

- 100% to reimburse first loan funding
- 3% to reimburse DPA warehouse
- 1% for Agency fees

Ginnie Mae MBS
4.50% premium coupon
104% settlement price

Master Servicer

CalHFA DPA Warehouse
Funded upon loan closing
Down Payment Assistance to Borrower

CalHFA Housing Assistance Trust
Agenda Item 6 - Update on MF lending program
Program Description

- The new CalHFA Preservation Loan Program ("Preservation Loan") provides acquisition/rehabilitation and permanent loan financing of multifamily housing developments including existing CalHFA portfolio projects.
- The Preservation Loan Program will be administered under CalHFA's existing 50/50 FHA Risk Share Agreement with HUD.
- CalHFA has participated in the HUD Risk Share program as a 50/50 risk share lender since it was first established as a pilot program in FY1993/1994.
- The Preservation Loan Program will provide much needed capital for rehabilitation of existing developments and preserve and extend affordability for existing tenants.
- The Preservation Loan Program creates opportunities to upgrade projects with energy efficient appliances and materials.
- For existing CalHFA portfolio loans, projects must have met or exceeded their 15 year tax credit compliance period and are subject to a prepayment fee associated with the loan.
- Available to non-profit, for profit, or public agency sponsors.
Existing approval for HUD Risk Share Program

- Multifamily Lending Authorization
  - On July 4, 1994, the Board adopted Resolution 94-11 amending CalHFA’s business plan to include a “pilot” Risk Share Program
  - On May 11, 1995, the Board adopted Resolution 95-19 amending CalHFA’s business plan to include the Risk Share Program.
Agenda Item 8 –
Single Family Financing Resolution
Resolution 13-02

- General
  - Authorizing issuance up to 60 days after the first board meeting on or after March 1, 2014

- Debt-management bonds
  - Provides for the deposit and/or pledge of up to $50,000,000 of Agency assets to additionally secure debt-management bonds (no more than 10% of the refunded bonds)

- New money bonds
  - Can create new indentures that are "similar" in forms
  - Restricted to:
    » MBS (no whole loans)
    » fixed-rate bonds
    » no swaps
Agenda Item 9 –
Multifamily Financing Resolution
Resolution 13-03

- General
  - Authorizing issuance up to 60 days after the first board meeting on or after March 1, 2014

- New money bonds
  - For non-conduit transactions, restricted to:
    » FHA risk-share or comparable credit enhancement
    » fixed-rate bonds
    » no swaps
Agenda Item 10 – Application to CDLAC
Resolution 12-04

- Homeownership Program
  - authorizes the Agency to apply for up to $200Mn of private activity bond allocation

- Multifamily Program
  - authorizes the Agency to apply for up to $400Mn of private activity bond allocation
Investment Policy update
Annual Investment Update

- The Board approved the Agency’s Investment Policy in January 2012

- A copy of the Agency’s annual investment report is included in the Board package

- The policy established the Investment Oversight Committee to approve new investment counterparties and to monitor and review the policy
Investment Oversight Committee Updates

- The Committee approved a new investment vehicle to replace an expiring investment
  - US Bank commercial paper will replace the US Bank Open Repurchase Agreement as an approved investment
  - A copy of the approval document is included in the board handouts

- A low-rated investment was terminated by the Agency
  - WestLB had its underlying ratings withdrawn, which affected one GIC held by the Agency
  - The Agency has redeemed the associated bond series in full, which automatically terminated the GIC
Performance of modified loans
Mods with KYHC assistance perform better

Overall Average Cure Rate of 64%