Fiscal Year 2015-16
Proposed Business Plan and Operating Budget

May 14, 2015
Presentation Outline

• **Update on status of FY 2014-15 Business Plan**
  – Goals
  – Status of key action items

• **Presentation of Proposed FY 2015-16 Proposed Business Plan**
  – Goals
  – Key Action Items

• **Overview of resource and liquidity projections**
  – Legacy Resources vs. New Era Resources

• **Presentation of the FY 2015-16 Proposed Operating Budget**
  – General Overview
  – Comparative Analysis
  – Board Budget
### Fiscal Year 2014-15 Business Plan

<table>
<thead>
<tr>
<th>Goal #1</th>
<th>• Stabilize the Agency’s balance sheet. Improve operational efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal #2</td>
<td>• Reinvigorate lending activities. Grow the Agency’s balance sheet</td>
</tr>
<tr>
<td>Goal #3</td>
<td>• Reorganize State-level housing policy and resources</td>
</tr>
<tr>
<td>Goal #4</td>
<td>• Pursue new sources of capital and revenue and investigate new business opportunities</td>
</tr>
<tr>
<td>Goal #5</td>
<td>• KYHC: Help prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and/or significant negative equity</td>
</tr>
</tbody>
</table>
Update - FY 2014-15 Business Plan

Action Item Status

- Not Completed: 30%
- Accomplishments: 70%
- Partially Complete (In Process): 33%
- Completed: 37%
Stabilize the Agency’s balance sheet. Improve operational efficiency

- Increase stability of capital structure and liquidity position
  - Reduce VRDO balance by $450M **COMPLETED**
  - Reduce swap notional balance by $200M **COMPLETED**

- Reduce balance sheet risk by increasing loss mitigation efforts in the single family portfolio
  - Aggressively collect and apply loss mitigation strategies **COMPLETED**
  - Audit outside servicers, update servicers guide and streamline loss mitigation process **COMPLETED**
  - Review loan portfolio to increase participation in KYHC **COMPLETED**
Stabilize the Agency’s balance sheet. Improve operational efficiency

- Reorganize and increase operational efficiencies and infrastructure to better position the Agency for future business opportunities
  - Train managers and supervisors to effect succession planning **NOT COMPLETE**
  - Develop master plan for a flexible workforce **PARTIALLY COMPLETE**
  - Divisions will assess work flow to increase organization efficiency **PARTIALLY COMPLETE**

- Develop long-term strategies to monitor and mitigate enterprise risk
  - Review Quality Assurance, Risk Management and Internal Controls/Compliance and develop plan to address each **PARTIALLY COMPLETE**

- Agency-wide IT integration of data collection, flow and reporting **NOT COMPLETE**
Reinvigorate lending activities. Grow the Agency’s balance sheet

- **Generate income via multifamily lending opportunities**
  - Preservation and recapitalization of portfolio projects \(\text{PARTIALLY COMPLETE}\)
  - Obtain approval of 35/17 HUD Risk Share program \(\text{COMPLETED}\)
  - Implement HUD Risk Share program \(\text{PARTIALLY COMPLETE}\)
  - Continue Multifamily Conduit Issuer Program \(\text{COMPLETED}\)

- **Generate income via single family lending opportunities**
  - Revenue targets for 1\textsuperscript{st} mortgages and DPA loans \(\text{COMPLETED}\)
  - Introduce new conventional product, EEM and expand lending to non-first time homebuyers \(\text{COMPLETED}\)
  - Develop program for using recycled HPA (Home Purchase Assistance) funds \(\text{COMPLETED}\)
Reinvigorate lending activities. Grow the Agency’s balance sheet

• Generate income via multifamily asset management opportunities
  – Administer HCD’s Tenant Based Rental Assistance (TBRA) program
    PARTIALLY COMPLETE
  – Administer HUD 811 Subsidy program with HCD, DHCS and TCAC.
    PARTIALLY COMPLETE

• Generate savings in single family loan servicing operations
  – Assess existing servicing platform to maximize efficiency
    PARTIALLY COMPLETE
  – Determine economic feasibility of CalHFA servicing as master loan servicer
    COMPLETE
Reorganize State-level housing policy and resources

• **Collaboration with HCD on “live” projects**
  – Streamline multifamily asset management functions and responsibilities
    **PARTIALLY COMPLETE**
  – Governor Reorganization Plan (GRP) **COMPLETE**
  – Finalize affordable housing cost study **COMPLETE**

• **Coordinate HCD and CalHFA functions to meet California’s affordable housing needs**
  – Finalize executive organizational charts with roles and responsibilities
    **PARTIALLY COMPLETE**
  – Organizational review **PARTIALLY COMPLETE**
  – Provide technical assistance to legislature regarding dedicated source for affordable housing **PARTIALLY COMPLETE**
Help prevent avoidable foreclosures by providing assistance to eligible homeowners

- Maximize use of KYHC program funds
  - Collaborate with public and private entities to maximize leverage of foreclosure prevention resources **PARTIALLY COMPLETE**
  - Measure program outcomes **COMPLETE**
  - Submit needed program changes to US Treasury **COMPLETE**
  - Aggressively market programs **PARTIALLY COMPLETE**
  - Monitor success of program participants **COMPLETE**
Update - FY 2014-15 Business Plan

Questions?
Fiscal Year 2015-16
Proposed Business Plan

Goal #1
• Reinvigorate lending activities
• Grow the Agency’s balance sheet

Goal #2
• Align lending activities with State housing policy and increase operational efficiency

Goal #3
• KYHC: Help prevent avoidable foreclosures by providing assistance to eligible homeowners
Reinvigorate lending activities. Grow the Agency’s balance sheet

- Generate income via single family lending opportunities

- **Key Action Items:**
  - $600 million in 1st mortgage loans
  - $75 million in down payment assistance loans (DPA)
  - Generate $6 million in new revenues and $10.6 million in long term assets.
  - Add mortgage broker business.
  - Complete new lender manual
  - Issue 1,300 Mortgage Credit Certificates
Reinvigorate lending activities. Grow the Agency’s balance sheet

• Generate income via multifamily lending opportunities

• **Key Action Items:**
  – $100 million in multifamily lending
  – $100 million in multifamily conduit financings
  – Generate $1.2 million in new revenue and $5.3 million in long term assets
  – Increase internal capacity via training and program development
  – Create portfolio preservation strategy
  – Adopt policies for Earned Surplus Funds
Reinvigorate lending activities. Grow the Agency’s balance sheet

- Strengthen capital reserves and improve liquidity position

- **Key Action Items:**
  - Eliminate Temporary Credit Liquidity Program (TCLP)
  - Develop internal capacity to hedge MBS sales to increase fee income
  - Refine tools to manage allocation of capital and risk.
Align lending activities with State housing policy and increase operational efficiency

- Complete organizational assessment and implement recommendations that increase operational efficiencies

- **Key Action Items:**
  - Consolidate all Sacramento staff at 500 Capitol Mall
  - Eliminate unneeded vacant positions
  - Finalize organizational structure and functional roles
  - Continue to refine budget and business plan development
Align lending activities with State housing policy and increase operational efficiency

• Develop long-term strategies to monitor and mitigate enterprise risks

• **Key Action Items:**
  - Formalize Strategies to integrate enterprise risk management efforts into the CalHFA business process
  - Develop a plan to review and improve quality assurance, risk management and internal controls across the Agency
Align lending activities with State housing policy and increase operational efficiency

- Agency-wide IT integration of data collection, flow and reporting

- **Key Action Items:**
  - Develop IT governance structure and strategic plan that aligns IT priorities with business plan goals
  - Develop records management policy and update records retention schedule
  - Identify and train IT liaisons in all business units
  - Expand and improve electronic loan file submission process
Align lending activities with State housing policy and increase operational efficiency

• Enhance program delivery of affordable housing through continued collaboration with HCD and other partners

• Key Action Items:
  – In collaboration with DHCS and HCD determine next phase of MHSA program
  – Assess goals, performance measures and viability of HOME TBRA and HUD 811 programs
  – Continue to explore integrated gap financing efforts amongst State affordable housing entities
  – Collaborate with HCD and CalVet to expand veteran housing opportunities
Align lending activities with State housing policy and increase operational efficiency

• Maximize use of KYHC program funds

• **Key Action Items:**
  - Submit program changes as needed to US Treasury to increase eligibility
  - Increase marketing efforts
  - Collaborate with other private and public entities to maximize and leverage potential foreclosure prevention resources.
  - Measure program outcomes and assess barriers to eligibility
FY 2015-16 Business Plan

Questions?
Overview of Agency Resource and Liquidity Projections

May 14, 2015
Sources and Uses of unencumbered cash from 4/1/14 to 3/31/15

### Cash and Securities 4/1/14:

<table>
<thead>
<tr>
<th>Description</th>
<th>4/1/14 to 6/30/14</th>
<th>7/1/14 to 3/31/15</th>
<th>Total 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Inflows</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage/securities repayments and prepayments</td>
<td>$0.18</td>
<td>$52.04</td>
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<tr>
<td>Release of Earthquake Insurance</td>
<td>$0.39</td>
<td>$1.37</td>
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<tr>
<td>Income from Loan Servicing</td>
<td>$0.50</td>
<td>$2.00</td>
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</tr>
<tr>
<td>Fee Income</td>
<td>$3.72</td>
<td>$19.68</td>
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</tr>
<tr>
<td>Interest on mortgage/securities/cash</td>
<td>$3.38</td>
<td>$11.88</td>
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<tr>
<td>DPA</td>
<td>$3.46</td>
<td></td>
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<tr>
<td>Transfer in: closed indentures, interfund etc.</td>
<td>$2.08</td>
<td>$0.50</td>
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<tr>
<td><strong>Total Cash Inflows</strong></td>
<td>$10.25</td>
<td>$90.93</td>
<td>$101.18</td>
</tr>
<tr>
<td><strong>Cash Outflows</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll expense (salaries and benefits)</td>
<td>$(6.69)</td>
<td>$(20.61)</td>
<td>$(27.30)</td>
</tr>
<tr>
<td>Rent (Agency) expense</td>
<td>$(0.65)</td>
<td>$(2.27)</td>
<td>$(2.92)</td>
</tr>
<tr>
<td>Prorata expense &amp; General Expenses</td>
<td>$(3.25)</td>
<td>$(11.92)</td>
<td>$(15.17)</td>
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<tr>
<td><strong>Total Cash Outflows</strong></td>
<td>$(10.60)</td>
<td>$(34.80)</td>
<td>$(45.40)</td>
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<tr>
<td><strong>Net Cash Inflows</strong></td>
<td>$(0.35)</td>
<td>$56.13</td>
<td>$55.79</td>
</tr>
<tr>
<td><strong>Redemptions of VRDOs</strong></td>
<td>$(17.79)</td>
<td></td>
<td>$(17.79)</td>
</tr>
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</table>

### Cash and Securities 4/1/15:

<table>
<thead>
<tr>
<th>Description</th>
<th>4/1/15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and Securities 4/1/15</strong></td>
<td>$220.8</td>
</tr>
<tr>
<td><strong>Expected use for bond redemptions on 8/1/15</strong></td>
<td>$(35.0)</td>
</tr>
<tr>
<td><strong>Total expected use</strong></td>
<td>$185.8</td>
</tr>
</tbody>
</table>
Lower collateral posting requirements justify lower cash/securities set-aside

Collateral at A-/A3, $99
Collateral at A-/A3, $69
Collateral at A-/A3, $50
Collateral at A-/A3, $50

Additional Collateral at BBB+/Baa1, $102
Additional Collateral at BBB+/Baa1, $89
Additional Collateral at BBB+/Baa1, $45
Additional Collateral at BBB+/Baa1, $45

Total cash/sec: $300Mn
Total cash/sec: $300Mn
Total cash/sec: $186Mn
Total cash/sec: $220Mn
Available cash/securities and collateral posting requirements

### Quarterly by Calendar Year

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Securities at Par</th>
<th>Cash Collateral</th>
<th>Securities Collateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1-2014</td>
<td>$116,606</td>
<td>$44,723</td>
<td>3,136</td>
<td>$47,859</td>
</tr>
<tr>
<td>Q2-2014</td>
<td>$101,739</td>
<td>$14,130</td>
<td>13,308</td>
<td>$52,369</td>
</tr>
<tr>
<td>Q3-2014</td>
<td>$114,999</td>
<td>$11,406</td>
<td>10,408</td>
<td>$47,290</td>
</tr>
<tr>
<td>Q4-2014</td>
<td>$153,985</td>
<td>9,946</td>
<td>36,882</td>
<td>$50,767</td>
</tr>
<tr>
<td>Q1-2015</td>
<td>$155,865</td>
<td>15,250</td>
<td>36,559</td>
<td>$50,491</td>
</tr>
</tbody>
</table>

Note: Thousands
Less conservative set-aside for collateral risk and operating expenses

- Collateral required at A-/A3, $50
- Collateral Required at A-/A3, $50
- Set-aside for OpEx (operating expenses) and Additional Collateral Requirements, $70
- Special Lending, $20
- SF Subordinate Loans, $5
- SF/MF Loan Warehouse, $40
- Debt Mgmt, $35
- Allocable cash, $170

The Agency advance funds (on a quarterly basis) its operating expenses. This presentation shows the Agency has sufficient cash inflows to pay for its operating expenses.

Total: $220Mn -> $185Mn
Projected FY15-18: declining legacy resources need to be bolstered by new lending income

- New income from new lending activities
- New Era Resources
- Legacy fee and income items
- Release of earthquake insurance
- Mortgage repayments and prepayments

Projected income for FY15-18:

- July-15 to June-16
  - New + New Era: $9.4Mn
- July-16 to June-17
  - New + New Era: $10.3Mn (+10%)
- July-17 to June-18
  - New + New Era: $12Mn (+28%)
SF MBS production to date

CalPLUS - TBA MBS Settlements by Product Type

Unpaid Principal Balance

Pool Settlements (Monthly)

Total GNMA: $ 77,393,044
Total FNMA: 113,396,765
Total TBA MBS: $ 190,789,809
Fiscal Year 2015-16
Proposed Operating Budget

May 14, 2015
Proposed FY 2015-16 Operating Budget

EST. RESOURCES FY 2015-16
$62,560
(In Thousands)

- Fee Income: $27,582 (44%)
- Loan Repayments: $18,998 (30%)
- Interest (Mortgage, etc.): $13,101 (21%)
- Loan Servicing (Other): $2,879 (5%)

Total: $62,560 (In Thousands)
Proposed FY 2015-16 Operating Budget

EST. USES FY 2015-16
$62,560
(In Thousands)

Net Surplus
$19,810
32%

Personal Services
$29,787
47%

Operating Expenses
$12,487
20%

Strategic Projects
$476
1%

Operating Budget
$42,750
68%
## Fiscal Year 2015-16 Proposed Operating Budget

*(In Thousands)*

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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Salaries and Benefits</td>
<td>28,817</td>
<td>29,984</td>
<td>29,597</td>
<td>(388) -1.3%</td>
</tr>
<tr>
<td>Other</td>
<td>126</td>
<td>137</td>
<td>190</td>
<td>53 38.5%</td>
</tr>
<tr>
<td>General Expense</td>
<td>633</td>
<td>677</td>
<td>641</td>
<td>(36) -5.3%</td>
</tr>
<tr>
<td>Communications</td>
<td>509</td>
<td>497</td>
<td>499</td>
<td>3 0.5%</td>
</tr>
<tr>
<td>Travel</td>
<td>381</td>
<td>390</td>
<td>414</td>
<td>24 6.2%</td>
</tr>
<tr>
<td>Training</td>
<td>115</td>
<td>134</td>
<td>160</td>
<td>27 19.9%</td>
</tr>
<tr>
<td>Facilities Operation</td>
<td>3,025</td>
<td>3,084</td>
<td>3,100</td>
<td>16 0.5%</td>
</tr>
<tr>
<td>Consulting &amp; Professional Services</td>
<td>3,792</td>
<td>3,674</td>
<td>3,982</td>
<td>308 8.4%</td>
</tr>
<tr>
<td>Central Admin. Services</td>
<td>3,795</td>
<td>2,312</td>
<td>2,960</td>
<td>647 28.0%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>600</td>
<td>663</td>
<td>602</td>
<td>(61) -9.2%</td>
</tr>
<tr>
<td>Equipment</td>
<td>150</td>
<td>120</td>
<td>130</td>
<td>10 8.3%</td>
</tr>
<tr>
<td>Strategic Project Contracts</td>
<td>2,053</td>
<td>1,219</td>
<td>476</td>
<td>(743) -61.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$43,996</strong></td>
<td><strong>$42,891</strong></td>
<td><strong>$42,750</strong></td>
<td><strong>($141) -0.3%</strong></td>
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### FULL TIME EQUIVALENT POSITIONS (FTE)

<table>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Regular/Ongoing Positions</td>
<td>300.5</td>
<td>285.5</td>
<td>273.0</td>
<td>(12.5) -4.4%</td>
</tr>
<tr>
<td>Temporary Help</td>
<td>12.1</td>
<td>11.4</td>
<td>12.8</td>
<td>1.4 12.3%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>312.6</strong></td>
<td><strong>296.9</strong></td>
<td><strong>285.8</strong></td>
<td><strong>(11.1) -4%</strong></td>
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# FY 2015-16 Board Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>Proposed Budget</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Services</td>
<td>$5,100</td>
<td>Board Per Diem</td>
</tr>
<tr>
<td>General Expenses</td>
<td>$2,000</td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td>$5,000</td>
<td></td>
</tr>
<tr>
<td>Travel In-State</td>
<td>$8,000</td>
<td></td>
</tr>
<tr>
<td>Travel Out of State</td>
<td>$20,000</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>$15,000</td>
<td></td>
</tr>
<tr>
<td>Consulting and Professional Services</td>
<td>$25,000</td>
<td>Court Reporter</td>
</tr>
<tr>
<td><strong>TOTAL BUDGET</strong></td>
<td><strong>$80,100</strong></td>
<td></td>
</tr>
</tbody>
</table>
Fiscal Year 2015-16
Proposed Business Plan and Operating Budget

May 14, 2015