



California Housing Finance Agency

Board of Directors Presentation

Lakeview Loan Servicing, LLC

March 7, 2023

Update on Lakeview

Lakeview Loan Servicing, LLC (Lakeview) is the largest GNMA mortgage servicer, the 2nd largest HFA Master Servicer and the fourth largest mortgage servicer in the country as of 12/31/22.



Lakeview Dethrones Freedom Mortgage as the Largest GNMA Servicer

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Lakeview/Bayview Loan Servicing added nearly \$33 billion to its Ginnie Mae servicing portfolio in the final stretch of 2022, making it the largest player in the segment, according to a new ranking and analysis by [Inside FHA/VA Lending](#).

Overall, \$2.147 trillion of government-backed loans were outstanding as of Dec. 31, based on an analysis of Ginnie MBS disclosures. The reading reflected a 2.0% increase from the end of September and a 6.9% year-over-year jump.



How does your compensation measure up?

HFA Master Servicer Clients

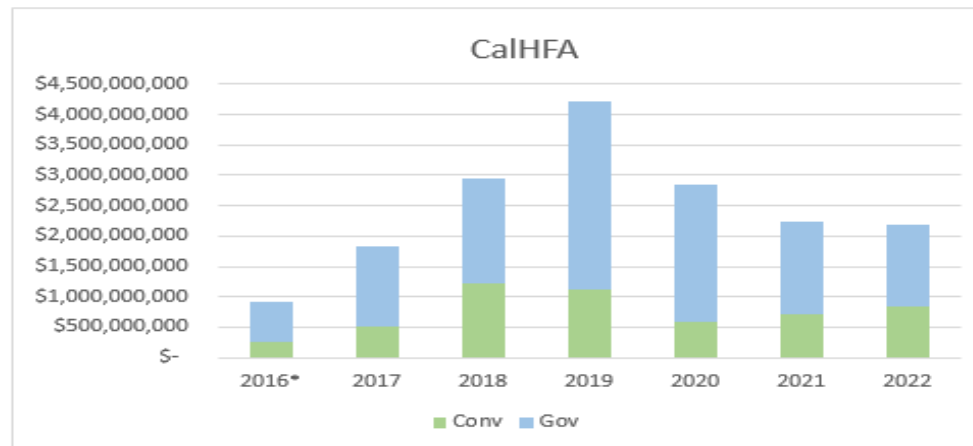
Lakeview has funded over \$43 billion in HFA loans (162,000 loan count) since 2016. We added FHFC and OHFA as clients in 2022.



The CalHFA/Lakeview Relationship

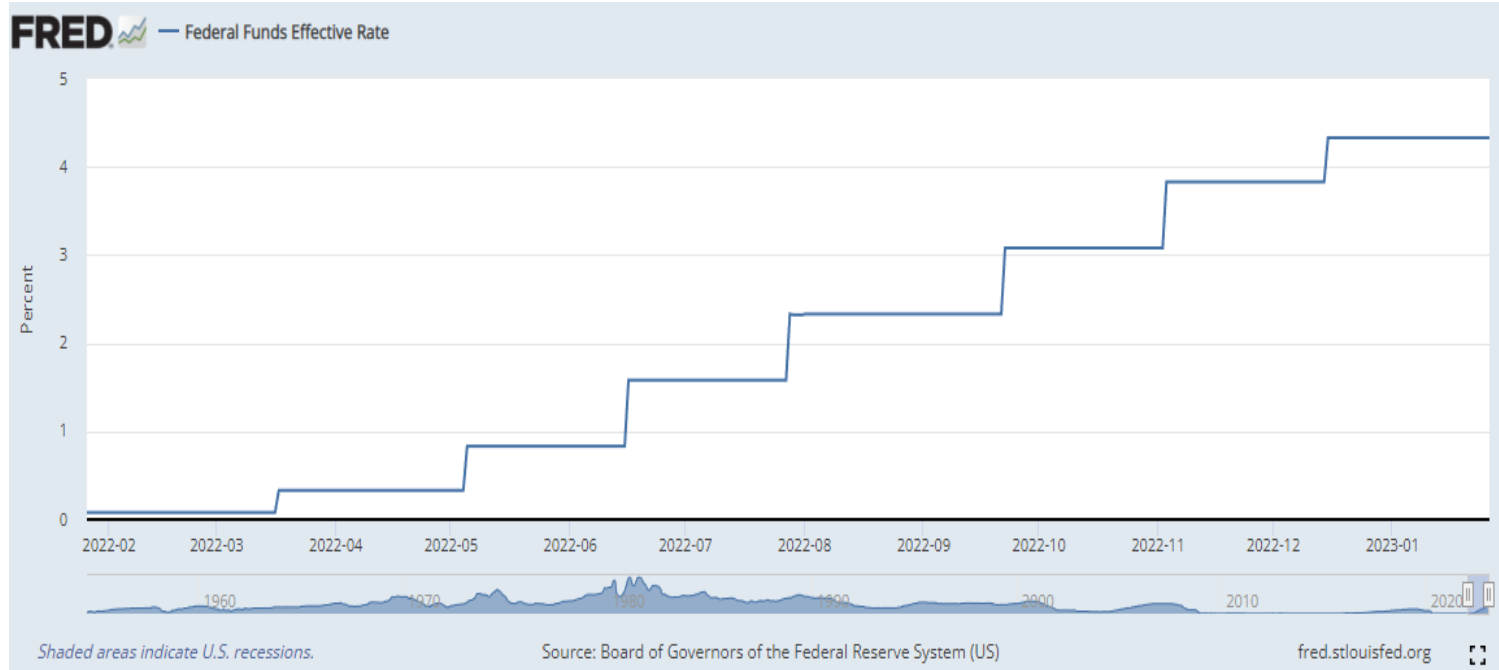


- Lakeview has been the Master Servicer for CalHFA's single-family (SF) program since April 2016. Since that time, the SF program has provided \$17 billion in loans to over 56,000 California first-time homebuyers and low-to-moderate income borrowers.
- In addition, Lakeview has provided hedging services to CalHFA since 2017. CalHFA experienced significant growth into 2020, when interest rates were low and home prices and inventory were more favorable.
- 2021 – Declines in volume attributable to rising home prices and interest rate volatility.
- 2022 – Due in part to the success of Forgivable Equity Builder Loan program, CalHFA maintained flat YoY production whereas the HFA space was ↓ 50-60%!



* Only includes Lakeview fundings

Macro Market Overview - 2022



Mortgage News Daily - Rate Index

Frequency: Daily | Data Source: Mortgage News Daily

The MND Rate Index is the best way to follow day-to-day movement in mortgage rates. Our index is driven by real-time changes in actual lender rate sheets. This has two **huge advantages**, timeliness and accuracy. [Read more below](#)

Average Rates	Current	Change				52 Week Range	
		1 day	1 week	1 month	1 year	Low	High
30 Yr. Fixed	6.17%	-0.04% ↓	-0.04% ↓	-0.37% ↓	+2.49% ↑	3.66%	7.37%

Macro Market Overview - 2022

Mortgage Market Dynamics

- 2022 mortgage originations dropped 50%
- Refinance boom ends...purchase market focus going forward

Total Originations and Refinance Shares

Period	Originations (\$ billions)			Refi Share (percent)		
	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	FNMA estimate	FHLMC estimate	MBA estimate
2022 Q1	745	847	689	47	50	48
2022 Q2	676	744	678	25	28	33
2022 Q3	530	551	480	18	11	22
2022 Q4	392	453	398	17	12	19
2023 Q1	315	406	345	23	17	24
2023 Q2	435	525	510	20	14	24
2023 Q3	450	538	519	21	15	27
2023 Q4	435	474	525	23	18	29
2021	4570	4838	4436	58	58	62
2022	2344	2595	2245	29	29	33
2023	1635	1942	1899	22	16	26

Sources: Fannie Mae, Freddie Mac, Mortgage Bankers Association and Urban Institute.

Affordable Housing Dynamics – 2022 & Current



Toughest market conditions since the Great Recession

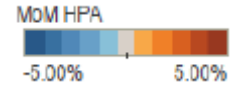
- 2022 HFA originations down 50-60%, based on Lakeview estimates
 - Affordable housing inventory shortages persist
 - Interest rates doubling
 - Massive home-price appreciation (HPA) over last 2 years
- As yield curve flattened/inverted, premiums in TBA pricing were under significant pressure
 - Run-up in HPA exacerbated prepay speeds
 - TBA volatility put pressure on HFA SRPs, which limited DPA options
- Now that HPA has stabilized (even some HPD), investors coming back to the HFA specified market looking for prepay protection
- If there is HPD, borrowers wanting to refinance will have less equity to repay the second lien, creating a large disincentive to refi.

Home Price Appreciation Takes a Break



Exhibit 10: Key MSAs in the south and in California extended their MoM declines in December, partly driven by seasonality

MoM % HPA by top 50 MSAs, sorted by largest December 2022 decline



Source: J.P. Morgan, CoreLogic

National HPA Projections

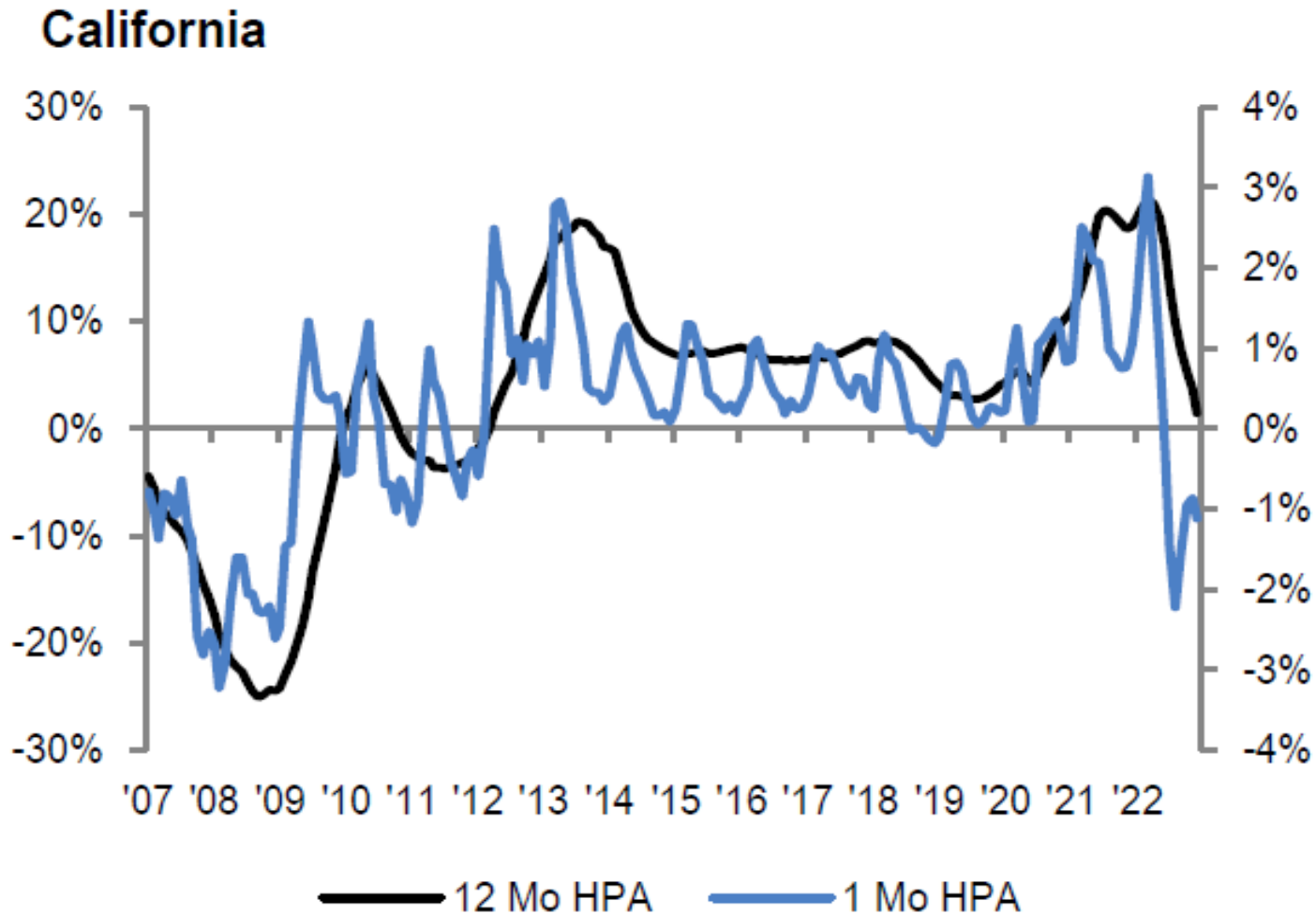


Exhibit 1: J.P. Morgan model for Case-Shiller home price appreciation

Scenario	2022 actual	2023	2024	Peak to Dec '23 chg.
Bullish	6.5%	10.0%	2.5%	10%
Positive	6.5%	2.6%	2.5%	0%
Base	6.5%	-5.3%	2.5%	-10%
Negative	6.5%	-13.5%	1.3%	-20%
Crisis	6.5%	-22.2%	1.3%	-30%

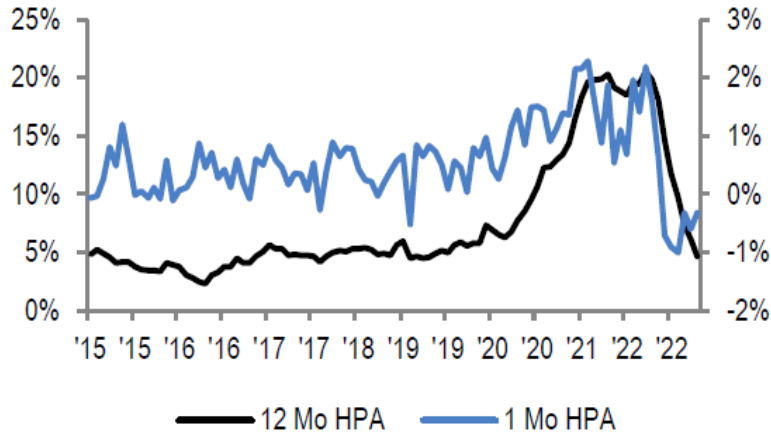
Note: 2023 and 2024 HPA forecasts are YoY % change of Q4 HPI. Projections for Case-Shiller YoY Home Price Appreciation (SA) for various scenarios.

Source: J.P. Morgan, CoreLogic, NAR, BLS

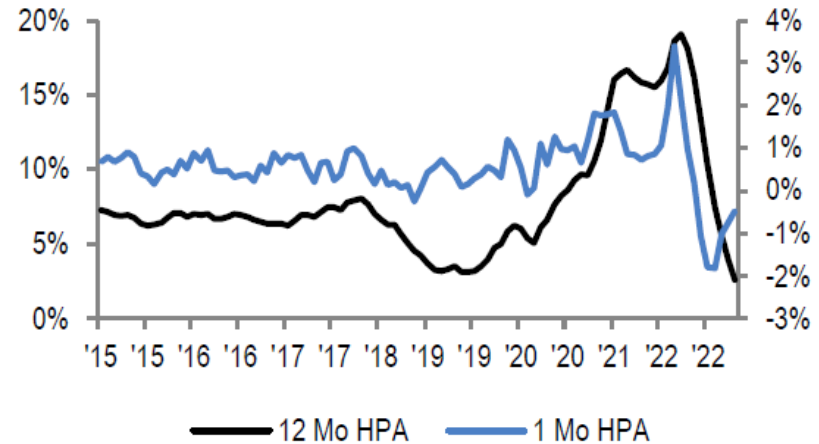


Regional HPA Dynamics – JP Morgan Research

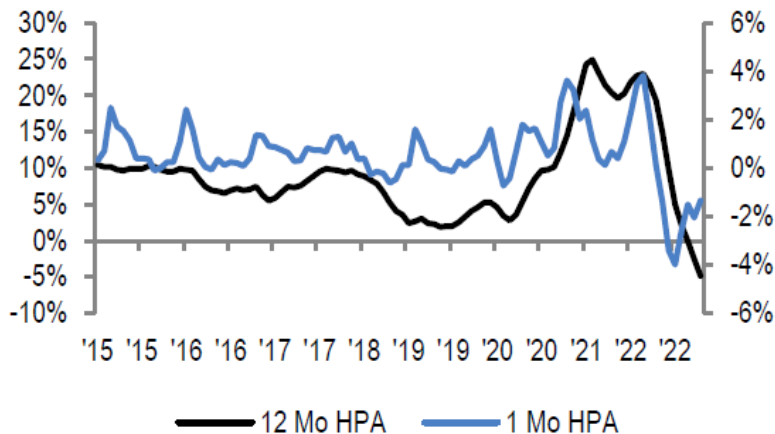
Bakersfield



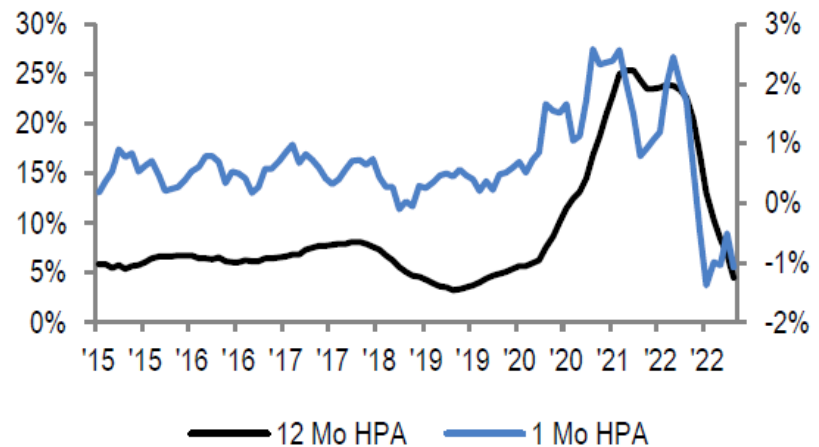
Los Angeles-Long Beach-Anaheim



Oakland-Hayward-Berkeley



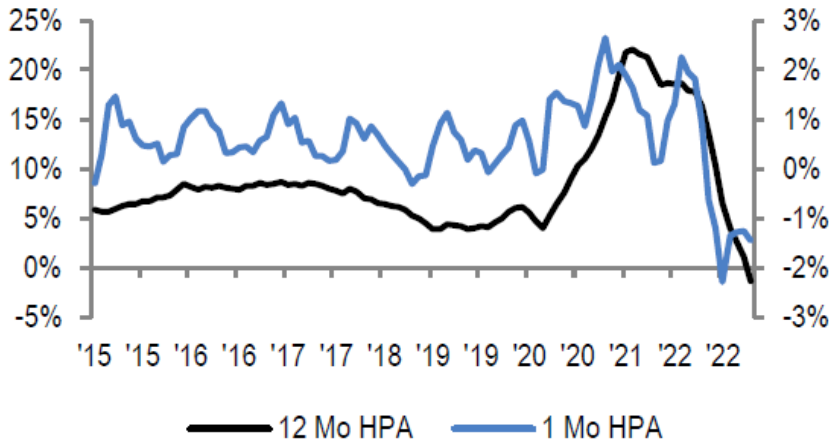
Riverside-San Bernardino-Ontario



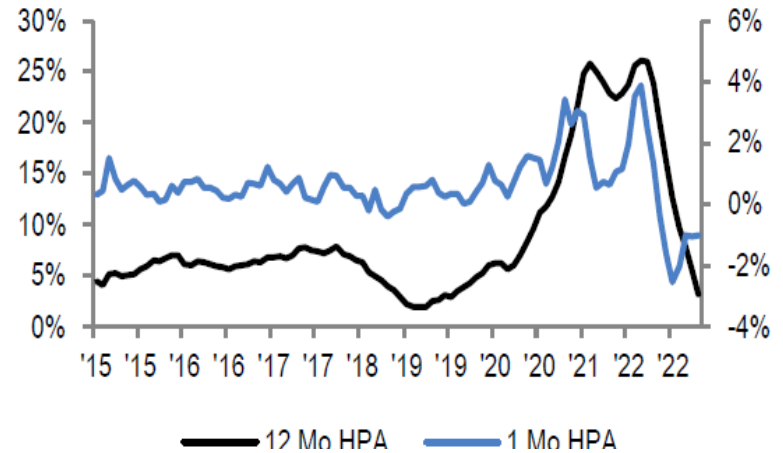
Regional HPA Dynamics –JP Morgan Research



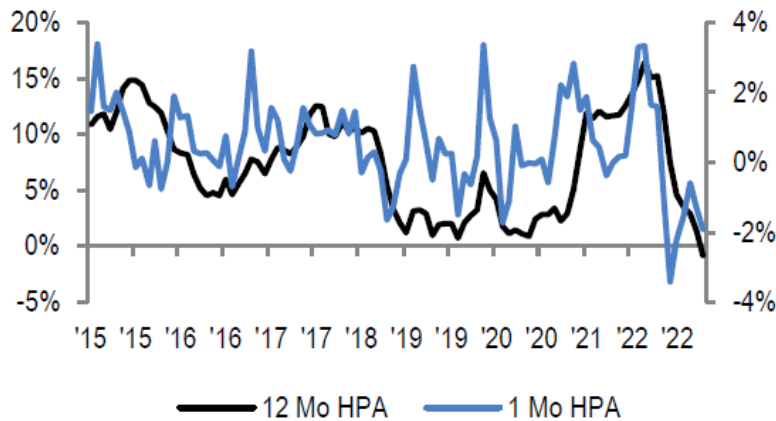
Sacramento--Roseville--Arden-Arcade



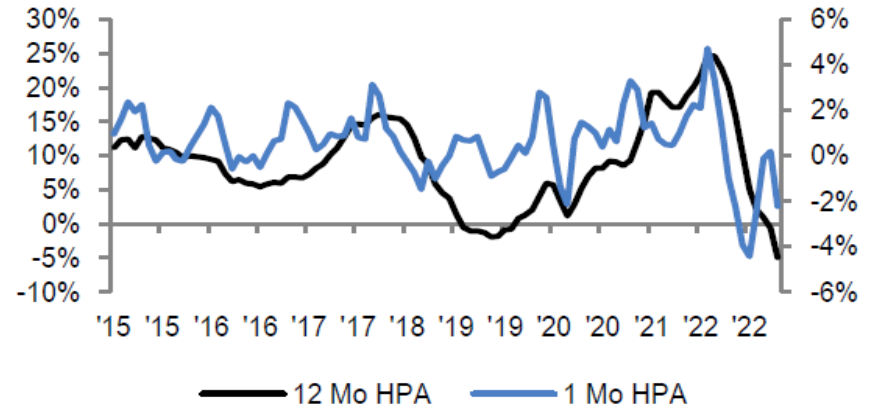
San Diego-Carlsbad



San Francisco-Redwood City-South San Francisco



San Jose-Sunnyvale-Santa Clara

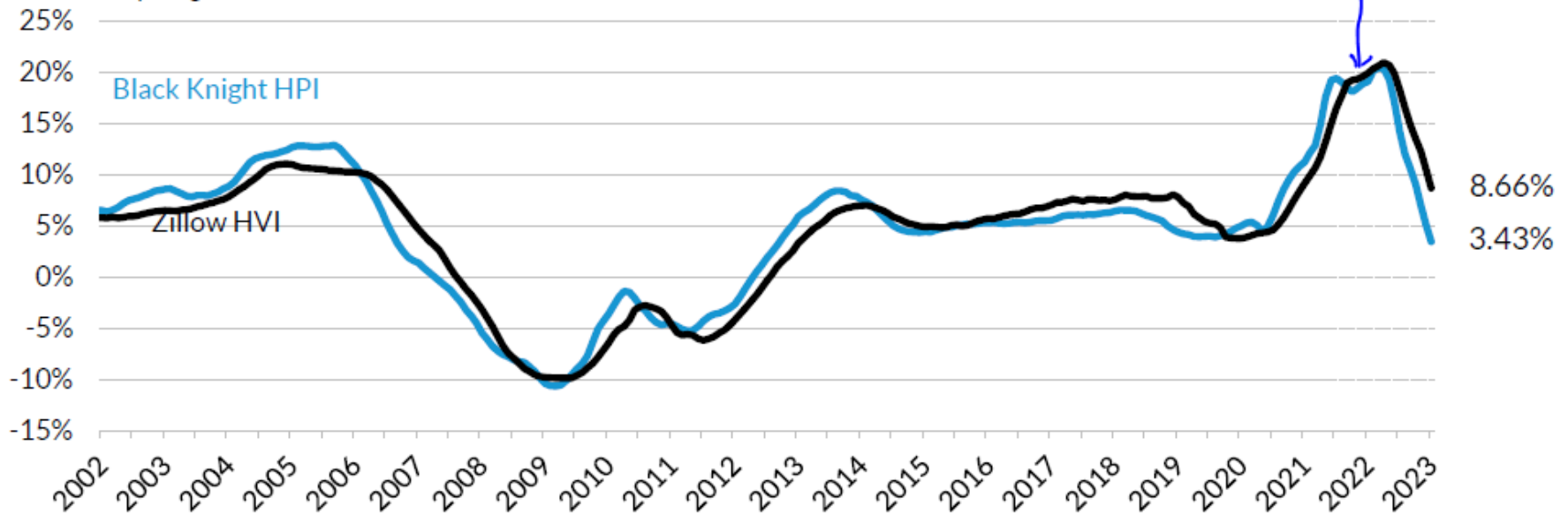


Housing Affordability

National Year-Over-Year HPI Growth

According to Black Knight’s updated repeat sales index, year-over-year home price appreciation slowed to 3.43 percent in January 2023, compared to 5.10 percent in December 2022. Year-over-year home price appreciation as measured by Zillow’s hedonic home value index was 8.66 percent in January 2023, down from 10.49 percent in December 2022. Home price appreciation has continued to slow since March 2022 reflecting month-over-month declines since then that may have modestly improved affordability. However, affordability remains low amid the broader increase in home prices combined with a sharp rise in interest rates over 2022.

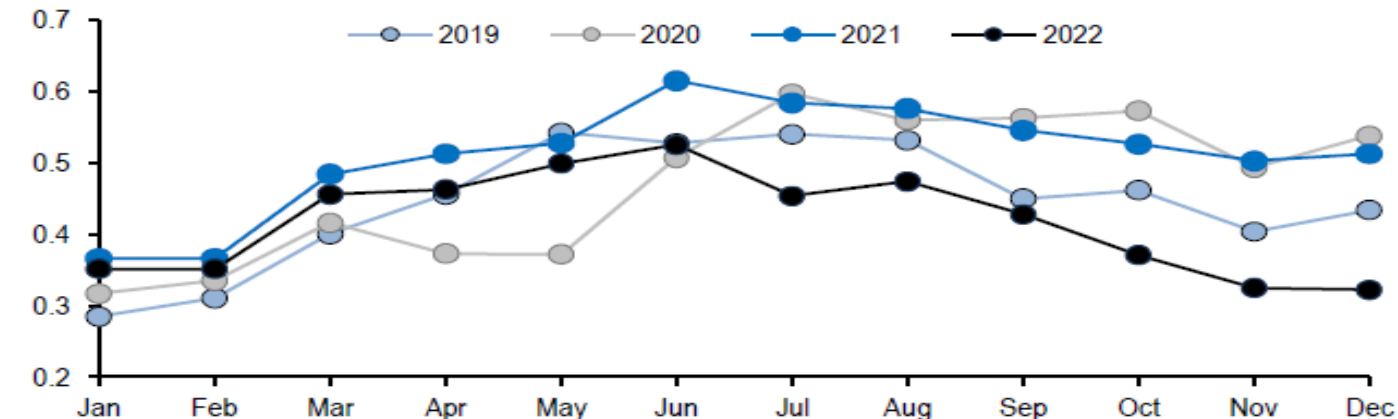
Year-over-year growth



Sources: Black Knight, Zillow, and Urban Institute. Note: Black Knight modified the methodology behind their HPI in February 2021, resulting in changes to historic price estimates. Data as of January 2023.

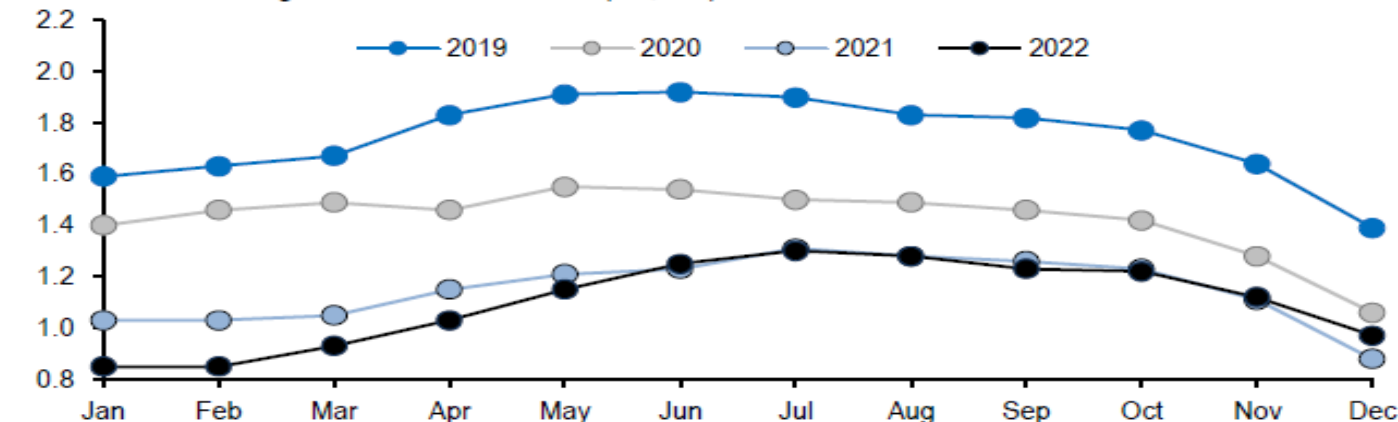
National Supply/Demand Dynamics

Exhibit 5: Demand declined 37.1% YoY in December, well below the level of previous years
 Monthly existing home sales (mn, nsa)



Source: J.P. Morgan, CoreLogic

Exhibit 6: Meanwhile, supply is retracing 2021 levels
 Annual rates of existing homes available for sale (mn, nsa)



Source: J.P. Morgan, NAR

National FTHB metrics vs. Cal HFA - snapshot

Comparison of First-Time and Repeat Homebuyers, GSE and FHA Originations

Characteristics	GSEs		FHA		GSEs and FHA	
	First-time	Repeat	First-time	Repeat	First-time	Repeat
Loan Amount (\$)	323,448	339,301	287,902	302,384	314,093	343,777
Credit Score	746	757	673	670	714	742
LTV (%)	86	76	95	92	90	81
DTI (%)	37	38	45	46	40	40
Loan Rate (%)	5.49	5.44	5.41	5.34	5.43	5.37

Sources: eMBS and Urban Institute.

Note: Based on owner-occupied purchase mortgages originated in November 2022.

Last Twelve Months CalHFA Funding Profile			
	Conventional	FHA	Total
Loan Amount	\$368,000	\$371,000	\$369,200
Credit Score	748	686	712
LTV (%)	88.9	97.5	94
DTI (%)	44.4	42.6	43.3
Loan Rate (%)	5.83	5.47	5.61

What are HFAs doing to Combat this Market?

- HFAs creating new programs to meet market needs
 - CalHFA - Forgivable Equity Builder Program
 - California Dream For All
 - FHFC - Hometown Heroes Program
 - LA Housing - Pathways DPA Program
- Lowering profit hurdles in the interim
- Adjusting lender comp (mix of SRP and origination fees)
- Change product structure/extend forgiveness, less DPA
- MRB – we have 2 clients issuing bonds for 1st time in 5+ years
 - MRB issuance isn't viable in California due to volume cap limitations

Servicing loans in HPD market

What happens when property values decline and people find themselves under-water on their mortgage and can no longer afford the monthly payment due to a reduction in income or increase in expenses?

In general, loss mitigation options (for a person who is in default or is in imminent default) are not based on the value of the property. Each borrower's situation is reviewed individually based on their financial situation to determine the best path toward reinstatement and sustainability to remain current on their payments long term.

Common resolutions include:

Do not intend to keep the property:

- Short Sale (forgiving the difference between the sales price and the full payoff)
- Deed-in-Lieu of FCL: property surrendered to the Lender and lien is released

Retaining ownership of the property:

- Partial Claim/Deferral: based on investor guidelines, either a 2nd lien or balance due at maturity is placed for the delinquency
- Rate/Term Modification: terms of the loan are modified to reach a target "affordable" payment, which does not include principal forgiveness.

Current Environment- Mortgage/Rates Markets

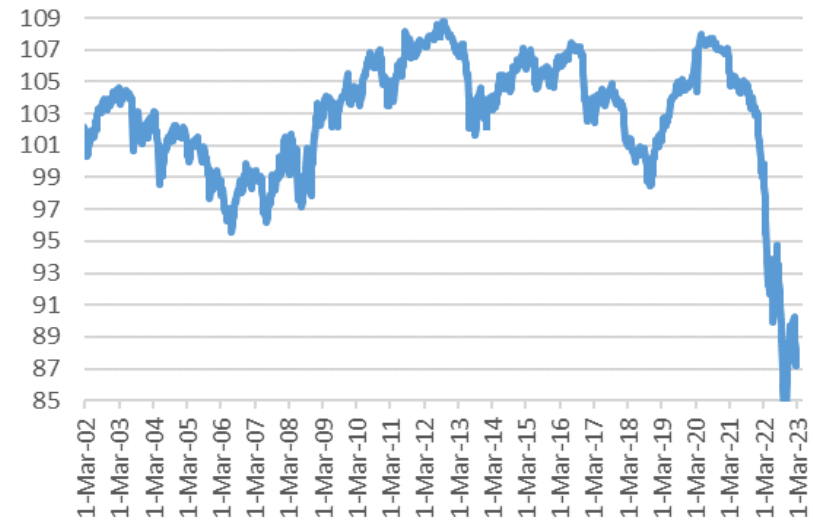


- 2022 saw the FED aggressively shift from an accommodative stance to a tightening bias, creating massive rate volatility not seen since the Financial Crisis.
- This market disruption has led to wide MBS spreads entering 2023.
- The existing mortgage market went from a huge premium dollar price to a discount dollar price. As a result, call protection was not that important to investors in 2022.
- As the float of “premium-priced” MBS begins to build after the FED “pauses”, investors will start to look for call protection again.

Nominal Spread of Mortgages



Ave Price of Mortgage Market



Current Market:

- Interest rates were extremely volatile in 2022. If the FED is forced to push rates even higher to stop inflation, we should expect to experience continued volatility throughout 2023. If and when the FED chooses to “pause”, interest rate volatility will likely crash lower.
- Any reduction in interest rate volatility will tighten MBS spreads.

Premium pricing has been smooched by the inverted Yield Curve:

- Shorter bonds are trading to higher yields, negatively impacting premium-pricing or lack thereof of high coupons.
- Funding of Down Payment Assistance programs has become more difficult, particularly for those who depend entirely on premium pricing to fund the DPA.
- When the FED “pauses”, the yield curve will start to re-steepen, which should start to help premium pricing. The biggest benefit won’t come until the FED is closer to their “pivot”, where the market starts to price in interest rate cuts.

Home prices have started to decline, and investors are interested in high LTV loans that may show less refinancing when they go “underwater”

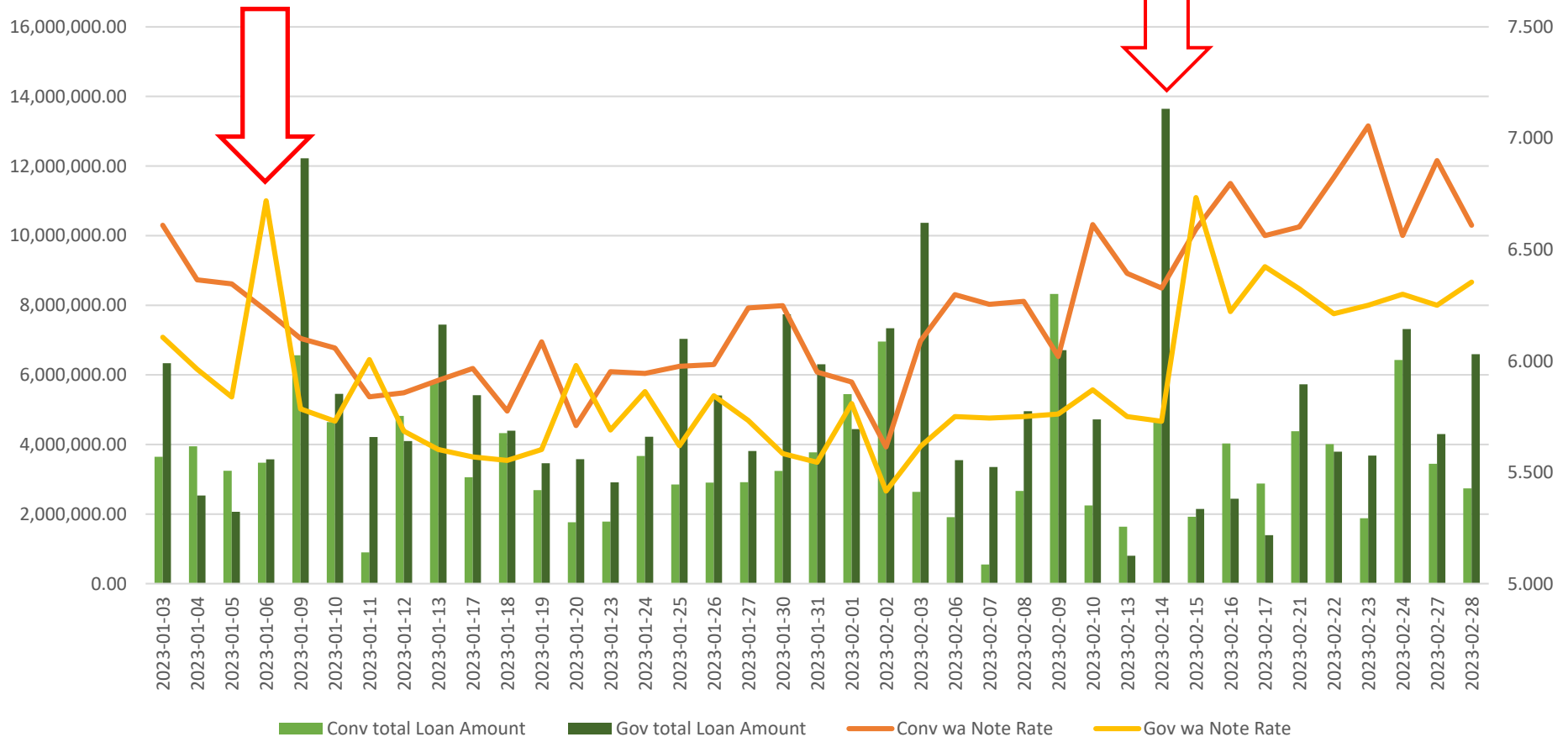
- Loans with DPA prepaid very fast when there was strong HPA (2020 into 2022). Investors believe that trend will reverse when home prices decline, and collateral with non-resubordinating DPA is starting to trade with strong pay-ups over TBA.

Interest Rate Volatility- Daily Pricing Impact



Continued interest rate volatility into 2023 is directly correlated to daily rates offered to borrowers and daily lock volumes.

2023 Daily Lock Volume



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