



Public Meeting Agenda

California Housing Finance Agency New Opportunities Committee
Thursday, August 22, 2024
9:00 a.m.

500 Capitol Mall
14th Floor Main Conference Room
Sacramento, CA 95814
916.326.8088

This meeting is also available to view via Zoom. Click on the link to register:
[https://events.zoom.us/ev/AhHj2VMFI3GyrSWrmC-MrWqEW6ErKkaBn8O5WPITuf6zrUW6JNng~Ato13c0h-aJowrXDeh3Yk8LbDcFKOKI8SwAyndgNbwTfZwiGwix7tRgPHA](https://events.zoom.us/j/9163268088)

- 1. Roll Call
- 2. Approval of the meeting minutes of the July 25, 2024, meeting 1
- 3. Chairperson comments
- 4. Review and discuss an enhanced MyHome program concept (Ellen Martin) 3
- 5. Review and discuss Employer Based Shared Appreciation Program concept
(Ellen Martin) 6
- 6. Other committee matters
- 7. Public comment: Opportunity for members of the public to address the Committee on matters
within the Committee’s authority
- 8. Adjournment

NOTES**

Public parking for 500 Capitol Mall is available at:1) Building parking structure with entrance on N street (\$2 per 20 minutes, \$6 per hour, \$24 daily maximum); 2) Limited metered street parking; and 3) Other nearby parking structures (costs vary)

MINUTES

**California Housing Finance Agency (CalHFA)
New Opportunities Committee Meeting
July 25, 2024
Meeting noticed on July 15, 2024**

1. Roll Call

The California Housing Finance Agency New Opportunities Committee Meeting was called to order at 10:01 a.m. by Board Chairperson Cervantes. A quorum of members was present.

MEMBERS PRESENT: Cervantes, Cabildo, Johnson Hall, White

MEMBERS ARRIVING
AFTER ROLL CALL: Grant (for Moss)

MEMBERS ABSENT: None

STAFF PRESENT: Chris Shultz, Claire Tauriainen, Melissa Flores, Erwin Tam, Ellen Martin

Early departures: Cabildo

2. Chairperson/Executive Director comments

Board Chair Cervantes opened the meeting by thanking Director White for agreeing to Chair the Committee.

3. Review and discuss proposed Committee Charter

Presented by Claire Tauriainen

Board Secretary and General Counsel Claire Tauriainen provided the Committee with an overview of the proposed charter. After a brief discussion, the Committee agreed to move forward with the proposed charter.

4. Review and discuss proposed methodology for considering new business opportunities

Presented by Chris Shultz and Erwin Tam

Chief Deputy Director Shultz and Director of Financing Tam provided the Committee with an overview of the proposed methodology for considering new business

opportunities. The Committee suggested several additions to the methodology which staff agreed to incorporate in a revised version which they will use moving forward.

5. Review and discuss areas of focus for new business opportunities

Presented by Chris Shultz, Erwin Tam, and Ellen Martin

Shultz, Tam, and Director of Single Family Programs Ellen Martin provided the Committee with an overview of the proposed areas of focus for new business opportunities. After careful consideration, the Committee unanimously agreed to explore two new areas of focus for business opportunities using the revised methodology. Staff agreed to conduct an analysis of an employer-funded shared appreciation loan program and potential enhancements to the MyHome downpayment assistance program.

6. Other Committee matters

Chair White asked if there were any other Committee matters to be discussed and there were none.

7. Public comment

Chair White asked if there were any comments from the public and there were none.

8. Adjournment

As there was no further business to be conducted, Chair White adjourned the meeting at 12:23 p.m.



August 22, 2024

Enhanced MyHOME Program Concept

Program Concept: Expand MyHome program to offer up to 6.0% down payment assistance using a combination of existing MyHome funds and the issuance of taxable bonds.

Problem Statement and Background: Facing continued increases in home prices, elevated interest rates, buyer-paid real estate commissions and the potential for additional costs, low- and moderate-income Californians struggle to come up with the necessary down payment and closing costs to purchase a home.

Since 2015, CalHFA has offered the MyHome Down Payment Assistance Program, which provides up to 3.5% down payment and closing cost assistance in the form of a silent second mortgage at a low, fixed interest rate. This assistance allows most buyers to meet the minimum down payment requirements to take out a conventional or government-backed mortgage.

However, the buying power for low- and moderate-income buyers has been undermined by higher interest rates and persistently high home prices. The recent National Association of Realtors settlement may introduce additional costs associated with buyer's agent fees. In addition, buyers of Manufactured Homes that seek conventional financing must put at least 5% down, and the current MyHome program assistance is insufficient to fully cover that cost.

MyHome down payment assistance is funded by CalHFA's Home Purchase Assistance (HPA) fund. This fund was initially capitalized by monies from SB50, Proposition 1C, and Proposition 46. In 2017 and 2020 additional funds were provided by SB3 and AB101. As funds recycle, the HPA fund is replenished, but available funds are not sufficient to provide increased assistance over the long term. CalHFA therefore proposes to establish an alternative funding source for additional down payment and closing cost assistance by issuing taxable bonds that would fund both the first mortgages and the additional increment of assistance above the MyHome 3.0%-3.5%.

Preliminarily Viable: Yes – proposed program leverages existing CalHFA programs, infrastructure, and unique bond issuance capabilities. Revenue potential significantly outweighs anticipated costs, and uptake is projected to be strong considering current market conditions.

Policy or Business Objective: Offers increased down payment and closing costs assistance to help more Low- and Moderate-Income (LMI) borrowers access homeownership and remediates barrier to conventional financing for manufactured homes.

Why CalHFA? Expands on CalHFA's existing flagship down payment assistance program to offer more assistance and options for low- and moderate-income borrowers, utilizing CalHFA's unique ability to issue taxable mortgage revenue bonds.

Eligibility/Population Served: Same as current MyHome program – low- and moderate-income, first-time homebuyers in California.

Funding Source:

Existing MyHome Funds (existing 3.0-3.5% assistance)
Taxable bonds (additional 2.5% assistance)

Preliminary Estimate of Capital Required: No expected capital outlay to fund program.

Preliminary Estimated Revenue: Estimated net income on a present value basis would be approximately 100% higher than current securitization and delivery model, assuming current prepayment rates. Actual net income is impacted by prepayment rates (higher prepayment rates decrease net income), net income may also be impacted by default rates. Losses from default would be limited to the additional 2.5% assistance. Additionally, net income is received over time which may require adjustment to the Agency's operating budget.

Preliminary Estimated Costs: Initial higher costs including marketing, outreach, and lender training. Currently estimated at up to \$600,000 (may not be entirely net new costs). Additional finance staff may be required depending on size of program to support frequency of bond issuances.

Rate of Return: N/A - no expected capital outlay to fund program.

Other Benefits: Diversifies sources of revenue available for down payment assistance, providing alternatives for future funding of MyHome program.

Challenges and Other Considerations: CalHFA has a maximum outstanding bond balance in the California Health and Safety Code. The maximum authorization is shared between single family and multifamily lending programs and has not been adjusted since 2008. In the future, CalHFA may need to seek additional bonding capacity depending on overall demand across all programs.

Enterprise/Financial Risks and Mitigants: CalHFA staff have preliminarily identified the following risks to be addressed as part of program design:

- **MyHome Sustainability.** Available MyHome funds are limited, and high interest rates mean recyclability is currently low. Generating more demand for MyHome means those funds will be exhausted more quickly. Establishing fund thresholds, projecting demand and creating triggers to adjust eligibility and reduce demand can moderate the impact.
- **Market Risk.** Because mortgage interest rates will be set to achieve a yield over the bond interest rate, if mortgage interest rates decline, this product could be less attractive. Program uptake is important to ensure sufficient revenue to pay debt service on the bonds. To mitigate this risk, the program needs to be structured to move loans quickly (before market moves) so that economics work. Program infrastructure, policies and procedures should be structured to easily ramp up or down depending on market conditions.
- **Program Risks.** Because this program lends a borrower more money, CalHFA will have a greater financial exposure should that borrower default on their loan. During program design, CalHFA staff will evaluate this financial exposure, and may consider tightening underwriting standards to mitigate that risk.
- **Credit Risk & Leverage.** Since the Great Recession in 2008, CalHFA has not been an active issuer of single-family bonds, due in part to the higher risk of increased debt obligations. The proposed structure is different because it involves securitized MBS as collateral for the loan, which are insured by the GSEs as compared to prior bonds which were secured by individual home loans. Another risk to the Agency is a reduction in the Asset to Debt ratio to CalHFA. In preliminary discussions with the rating agencies, this may be mitigated through the establishment of an ongoing annuity revenue structure.

Process/Timeframe: Implementation to begin immediately, with bond issuance and program availability targeted for January 2025. Final schedule to be determined during program design and implementation process.



August 22, 2024

Employer Based Shared Appreciation Concept

Program Concept: Potential Funding Partner proposes to fund a pilot program whereby their employees have access to a Dream For All-like down payment assistance product that would be paired with a CalHFA first mortgage and administered by CalHFA.

Problem Statement and Background: Funding for the California Dream For All program is limited, and continuing to offer the program requires additional funding sources.

The Dream For All Program offered up to 20 percent down payment assistance in the form of a shared appreciation loan. The program has been extremely popular, with demand significantly exceeding available General Fund appropriations.

To build on the success of the Dream For All program, CalHFA staff have been working to identify avenues to continue offering similar assistance. CalHFA staff were approached by another entity (Potential Funding Partner) wishing to provide down payment assistance to their labor force, to help attract and retain employees in a very high-cost area of the state.

Preliminarily Viable: Yes – proposed program relies on external funding source and leverages existing CalHFA infrastructure. Revenue potential exceeds anticipated costs, and program uptake is projected to be strong.

Policy or Business Objective: Helps major California employer to meet workforce attraction and retention goals and provides alternative capital to fund a shared appreciation loan program.

Why CalHFA? CalHFA has invested significant resources to develop the unique staff expertise and resources necessary to implement a shared appreciation loan program, not available elsewhere in State government or the private sector.

Eligibility/Population Served: Low- and moderate-income homebuyers employed by Potential Funding Partner and purchasing a home within a defined radius of employment location. Other parameters may be imposed based on discussions with Proposed Funding Partner.

Funding Source: Potential Funding Partner

Preliminary Estimate of Capital Required: CalHFA time and resources dedicated would likely require a minimum of \$10 million of external funds for the initial pilot program.

Preliminary Estimated Revenue: TBD. CalHFA would charge an administration fee to be negotiated with Potential Funding Partner with consideration to staff time required to stand up the program and service the shared appreciation loans over the long term.

Preliminary Estimated Costs: None currently identified.

Rate of Return: N/A – no CalHFA funds invested.

Other benefits: Diversifies CalHFA sources of revenue. Keeps CalHFA Dream for All infrastructure fresh should state revenues rebound in future years.

Challenges and Other Considerations: Limited amount of pilot program funding will initially serve a small number of new borrowers. Repayment challenges (if any) are most likely to appear in years 7-16 when homeowners refinance or sell; both CalHFA and Potential Funding Partner must plan for a certain amount of work over the 30- year duration of these loans. If successful, potential exists to scale program with this and other funding partners.

Enterprise/Financial Risks and Mitigants: CalHFA selecting and working with external partners on a shared appreciation program could pose a reputational risk regarding the public narrative and perception of our mission and vision, particularly with partners inexperienced in the industry. MOUs will be structured to fully reflect CalHFA's mission, vision and standards. They will also outline communication strategies and procedures.

Working with external partners on shared appreciation programs poses program risks, including CalHFA becoming dependent upon the partner for the continuation of the program. MOUs will address events of default, long-term repayment and servicing risks.

Process/Timeframe: CalHFA staff are currently negotiating an MOU with the Potential Funding Partner, which we hope to have in place by the end of Calendar Year 2024. That MOU will specify timing of program development.