Agenda #8

Capital Markets Update

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50TH ANNIVERSARY CalHFA

Overview

- Since the Board's last meeting in March, there has been significant volatility in taxable and tax-exempt interest rates
- CalHFA has become an on-balance sheet lender for both Single Family and Multifamily Programs and volatility affects both single family and multifamily programs
- Combined with uncertain Federal funding sources and policies, CalHFA is facing headwinds as the State's affordable housing lender

Federal Impact on CalHFA

- Moody's Investors Service downgraded the US sovereign rating on Friday, May 16 from Aaa to Aa1

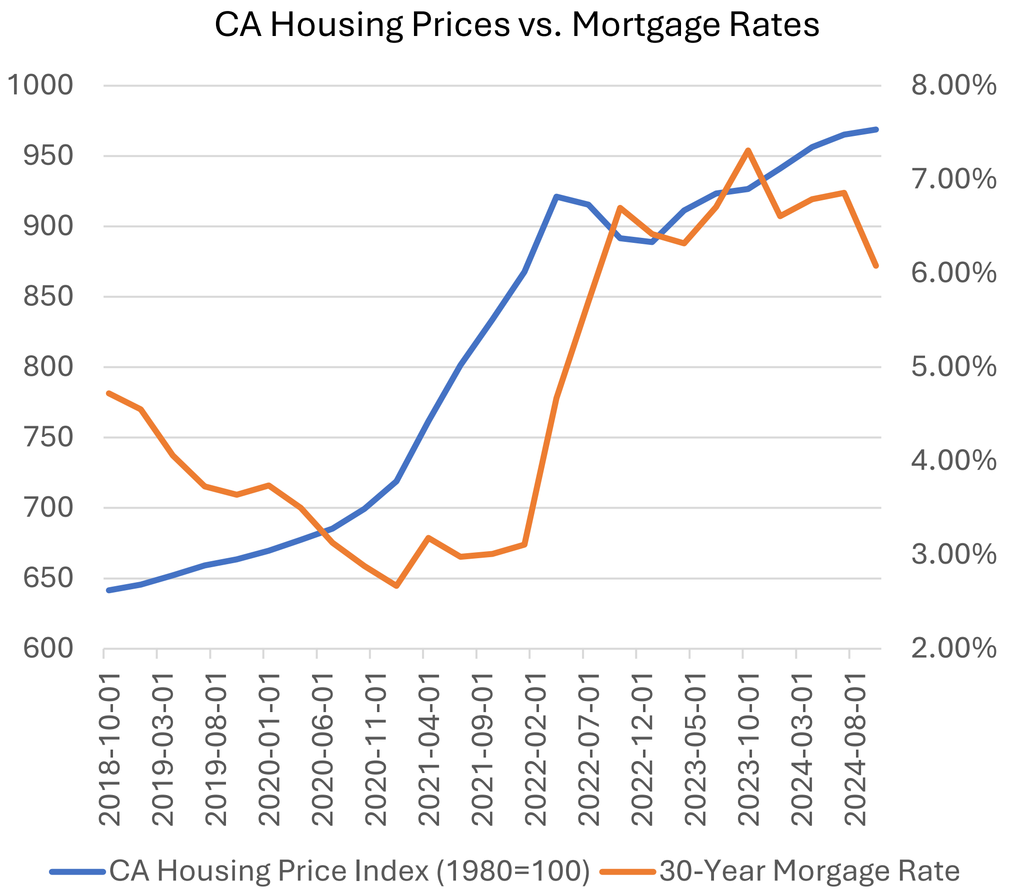
- The downgrade has impacted the ratings of bonds that were secured by the full faith and credit of the United States government, including Fannie Mae (FNMA) and Ginnie Mae (GNMA). The credit enhancement from HUD risk-share has also decreased.

- The following bonds have been affected by the downgrade of the US sovereign rating:
  - Homeowner Mortgage Revenue Bonds downgraded from Aaa to Aa1
  - Multifamily Housing Revenue Bonds (Issue A & B) downgraded from Aaa to Aa1

- Budget reconciliation bill continues to move forward in the House of Representatives
  - Tax-exemption including private activity bonds unchanged, however, faces uncertainty in the Senate
  - House bill indirectly increases available 4% LIHTC Tax Credits
  - Cuts to HUD potentially in the next federal budget year starting October 1, 2025

Capital Markets & Single Family Programs

- CalHFA sets rates for its single family lending programs daily
- Downgrade of US credit rating has had minimal direct impact on Treasury and MBS markets, but has raised investor concerns
- Treasuries have moved higher in yield due to investors doubts on the US economy and increasing budget deficits
- MyAccess rates are set by bond executions based on US Treasury rates
- Currently, financings in the TBA market and the taxable bond market have resulted in conventional mortgage rates close to 7%
- The housing market overall has adjusted to higher interest rates, with annual home price appreciation over 4.5% for 2024
- Combination of interest rates and price appreciation, among other macroeconomic factors creates uncertainty for single family volume



Capital Markets & Multifamily Programs

- As an on-balance sheet permanent loan lender, CalHFA takes market risk on tax-exempt bond issuances
  - CalHFA guarantees a fixed interest rate at construction close for the permanent loan
  - Since 2022, CalHFA has entered hedges to offset interest rate risk, however hedges are imperfect
- Since tariffs were announced, long-term rates have increased significantly (30 bps for tax-exempt rates, 50 bps for taxable rates)
- Credit spreads are elevated, and the value of tax-exemption is relatively low on a historical basis
- If current trends continue, potential borrowers may face higher interest rate costs