



**2017 | 2018**

# Bridging the Gap

**CALIFORNIA HOUSING FINANCE AGENCY  
2017-18 POPULAR ANNUAL FINANCIAL REPORT**

**A COMPONENT UNIT OF THE STATE OF CALIFORNIA**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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Popular Annual Financial Report  
for the Year Ended June 30, 2018

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FORESTHILL BRIDGE, AUBURN, CALIFORNIA

# Introduction



Tia Boatman  
Patterson  
**EXECUTIVE  
DIRECTOR**

The California Housing Finance Agency is pleased to present our Popular Annual Financial Report of the California Housing Finance Fund (“Fund”) for the fiscal year ending June 30, 2018. This report gives a general overview of CalHFA’s financial position. It also shows our continuing commitment to prudent and responsible financial management, in addition to giving context and background about the environment in which we operate.

Financial information in this document is a distillation of the much more detailed Comprehensive Annual Financial Report, and will be of more interest to the general public than to financial analysts. The Comprehensive Annual Financial Report was written to conform with generally accepted accounting principles, and includes financial statements audited by CliftonLarsenAllen, LLP. Requests for hard copies can be sent to the Sacramento address on the back of this report, or the PDF version is available on our website at [www.calhfa.ca.gov](http://www.calhfa.ca.gov).

Tia Boatman Patterson  
Executive Director



FERNBRIDGE, LOLETA, CALIFORNIA

# About CalHFA

For more than 40 years, the California Housing Finance Agency has supported the needs of renters and homebuyers by providing financing and programs so more low to moderate income Californians have a place to call home. Established in 1975, CalHFA was chartered as the state's affordable housing lender. The Agency's Multifamily Division finances affordable rental housing through partnerships with jurisdictions, developers and more, while its Single Family Division provides first mortgage loans and down payment assistance to first-time homebuyers.

CalHFA is a completely self-supporting state agency, funded by revenues generated through its mortgage loan programs, not taxpayer dollars. Over the course of its existence, CalHFA has helped more than 160,000 Californians purchase their first home with a mortgage they can afford, and helped build or preserve more than 65,000 affordable homes and apartments for veterans, seniors, those with special needs and families in danger of becoming homeless.

# Members of the Board of Directors



**Michael A. Gunning**  
ACTING CHAIRPERSON  
VICE PRESIDENT, PERSONAL  
INSURANCE FEDERATION  
OF CALIFORNIA



**Tia Boatman Patterson\***  
EXECUTIVE DIRECTOR,  
CALIFORNIA HOUSING  
FINANCE AGENCY



**Alexis Podesta**  
SECRETARY, BUSINESS, CONSUMER  
SERVICES AND HOUSING AGENCY,  
STATE OF CALIFORNIA



**Ben Metcalf**  
DIRECTOR, DEPARTMENT OF  
HOUSING AND COMMUNITY  
DEVELOPMENT, STATE OF  
CALIFORNIA



**Stephen Russell**  
EXECUTIVE DIRECTOR,  
SAN DIEGO HOUSING FEDERATION



**Eileen Gallagher**  
MANAGING DIRECTOR, STIFEL  
SAN FRANCISCO PUBLIC  
FINANCE OF CALIFORNIA



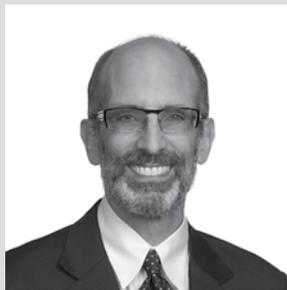
**Michael J. Cohen\***  
DIRECTOR, DEPARTMENT OF  
FINANCE, STATE OF CALIFORNIA



**Jonathan C. Hunter**  
CONSULTANT, JCHUNTER  
CONSULTING



**Dalila Sotelo**  
PRINCIPAL, THE SOTELO GROUP



**Ken Alex\***  
DIRECTOR, OFFICE OF PLANNING  
AND RESEARCH, STATE OF  
CALIFORNIA



**Dr. Vito Imbasciani**  
SECRETARY, DEPARTMENT OF  
VETERANS AFFAIRS, STATE OF  
CALIFORNIA



**Tiena Johnson-Hall**  
SVP, COMMUNITY  
DEVELOPMENT FINANCE  
MANAGER, BBVA COMPASS



**AnaMarie Avila Farias**  
HOUSING AUTHORITY  
OF CONTRA COSTA COUNTY



**Preston Prince**  
CEO AND EXECUTIVE DIRECTOR,  
FRESNO HOUSING AUTHORITY



**Janet Falk\*\***



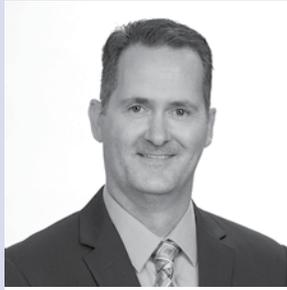
**John Chiang**  
STATE TREASURER,  
STATE OF CALIFORNIA

\* NON-VOTING, \*\* SERVED IN 2017

# CalHFA Senior Staff



**Tia Boatman Patterson**  
EXECUTIVE DIRECTOR,  
CALIFORNIA HOUSING  
FINANCE AGENCY



**Donald Cavier**  
CHIEF DEPUTY DIRECTOR



**Jeree Glasser-Hedrick**  
DIRECTOR OF BUSINESS  
AND GOVERNMENTAL AFFAIRS



**Timothy Hsu**  
DIRECTOR OF HOMEOWNERSHIP



**Claire Tauriainen**  
GENERAL COUNSEL



**Larry Flood**  
DIRECTOR OF FINANCING



**Michael Carroll**  
DIRECTOR OF MULTIFAMILY  
PROGRAMS



**Anthony Sertich**  
DIRECTOR OF ENTERPRISE  
RISK MANAGEMENT



**Lori Hamahashi**  
COMPTROLLER



**Jennifer LeBoeuf**  
DIRECTOR OF ADMINISTRATION



**Liane W. Rhodes**  
CHIEF INFORMATION OFFICER



**Kathy Phillips**  
DIRECTOR OF MARKETING

# Financial Highlights

The Statement of Net Position is a snapshot of the fiscal condition of the Fund as of a certain point in time as, over time, increases or decreases in the Fund’s net position are one indicator of whether its financial status is improving, stable, or deteriorating. There are also other indicators that should be considered when reviewing the operational results of the Fund, such as changes in the interest rate environment, bond market, state and federal laws governing the Fund’s programs, the tax code and the real estate market in the State. All of the Fund’s net position is restricted pursuant to trust agreements with bondholders, the Agency’s enabling legislation or net investment in capital assets. Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period, and the deferred inflow of resources is an acquisition of net assets by the government that is applicable to future reporting period.

A financial position of strength and stability is supported by a variety of outstanding Single Family and Multifamily loan products and conservative management principles. The overall financial condition of the Housing Finance Fund remained stable as the assets and deferred outflows of resources of the Fund exceeded liabilities and deferred inflows of resources at the close of the fiscal year by \$1.57 billion (net position). Total assets decreased by \$344.9 million to \$3.72 billion primarily due to the decrease in cash and investment related to debt service and early bond redemption activities. Total liabilities decreased \$520.2 million to \$2.16 billion primarily as result of significant HMRB early bond redemption activities.

Net position increased by \$164.6 million. The increase was primarily due to \$115.1 million from operating income, \$36.8 million from non-operating income, and \$60.1 million net transfers into the Fund offset by the one-time adjustment for the cumulative effect of the adoption of GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which reduced the Fund’s net position by \$47.4 million.

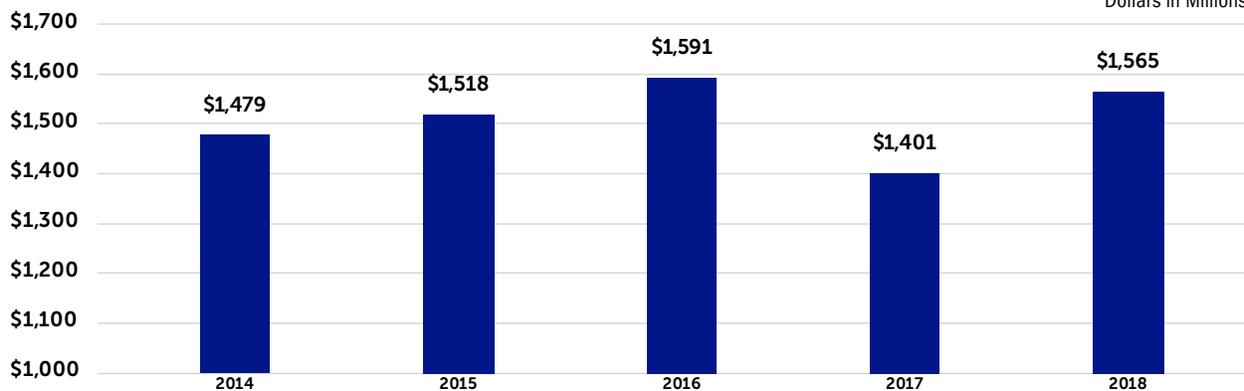
Following is a comparison of the Fund’s abbreviated Statement of Net Position as of June 30 (dollars in millions):

## CONDENSED STATEMENT OF NET POSITION

	2014	2015	2016	2017	2018
Total Assets & Deferred Outflows	\$ 5,596	\$ 5,016	\$ 4,774	\$ 4,094	\$ 3,747
Total Liabilities & Deferred Inflows	\$ 4,117	\$ 3,498	\$ 3,183	\$ 2,693	\$ 2,182
<b>TOTAL NET POSITION</b>	<b>\$ 1,479</b>	<b>\$ 1,518</b>	<b>\$ 1,591</b>	<b>\$ 1,401</b>	<b>\$ 1,565</b>

## TOTAL NET POSITION

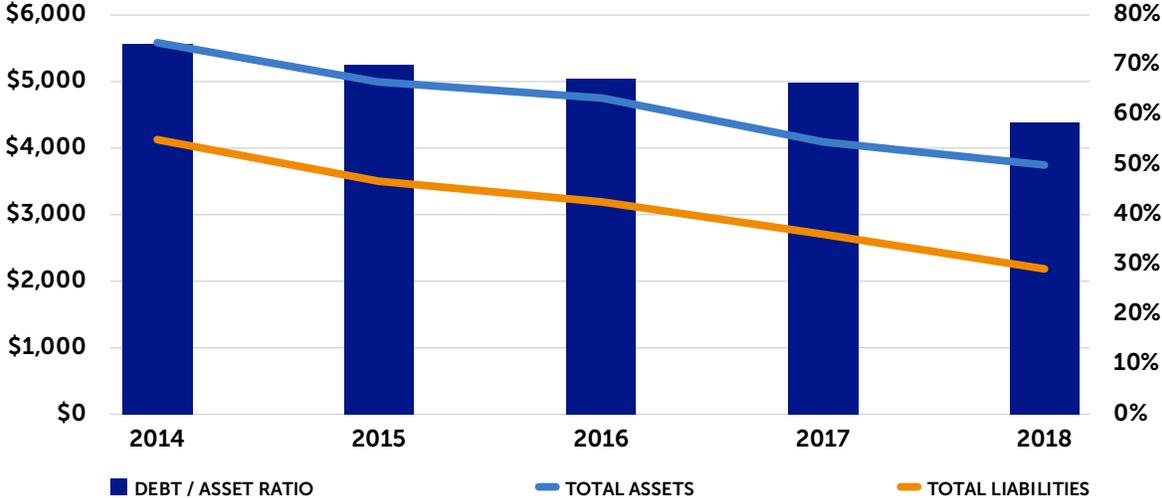
Dollars in Millions



# Financial Highlights

## TOTAL ASSETS, TOTAL LIABILITIES AND DEBT TO ASSET RATIO

Dollars in Millions



The Agency’s assets primarily consist of cash, investments, interest receivable, accounts receivable and program loan receivables. The liabilities predominantly consist of bonds, notes and loans payable, interest payable, and compensated absences which represent the amount of accrued vacation or annual leave balances for Agency’s employees.

Total assets were \$3.72 billion as of June 30, 2018 compared to \$4.07 billion as of June 30, 2017 and \$4.74 billion as of June 30, 2016. This represents a decrease of \$344.9 million (or 8.5%) from the prior year and a decrease of \$667.6 million (or 14.1%) from June 30, 2016 to June 30, 2017. The decrease in total assets is primarily due to the \$149.9 million decrease in program loan receivable and \$200.0 million decrease in cash and investments which was used for debt service payments and early bond redemption activities.



SWINGING BRIDGE, ARROYO GRANDE, CALIFORNIA

# Financial Highlights

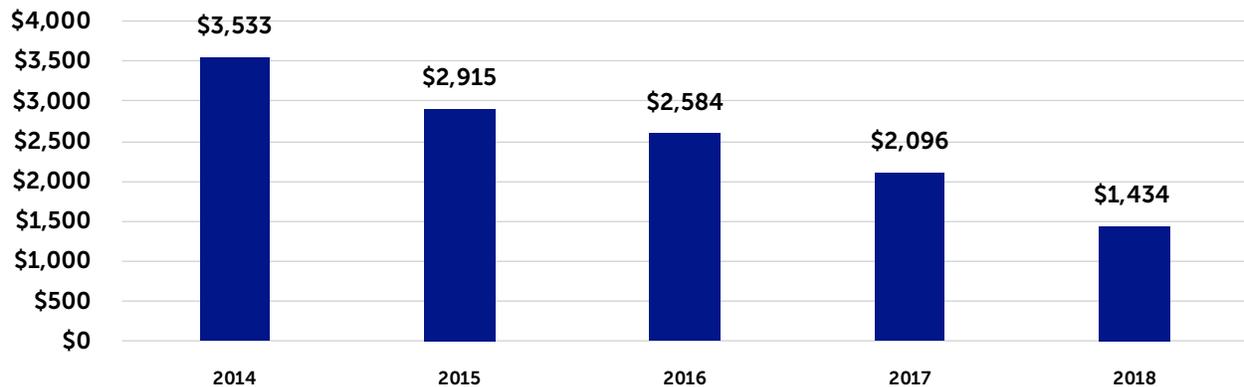
## LONG TERM DEBT

The Agency's enabling statutes empower the Agency, on behalf of the Fund, to issue both federally taxable and tax exempt bonds and notes. Bonds and notes issued by the Agency are not debts of the State but are special and general obligations of the Agency payable solely from and collateralized by the revenues and other assets pledged under the respective indentures. The Agency has the authority to have outstanding bonds or notes, at any one time, in the aggregate principal amount of \$13.15 billion excluding refunding issues and certain taxable securities.

The Fund's net bonds payable at June 30, 2018 decreased by \$662.1 million from the prior year to \$1.4 billion mainly due to \$623.2 million in bond redemptions and \$38.1 million of scheduled principal maturities. During FY 2018, the Agency did not issue any long-term debt in fixed rate bonds, tax-exempt fixed rate bonds or variable rate bonds. However, notes payable increased by \$99.9 million from previous year to \$133.3 million primarily as a result of multifamily loan activities under FHA's HFA Risk-Sharing Program.

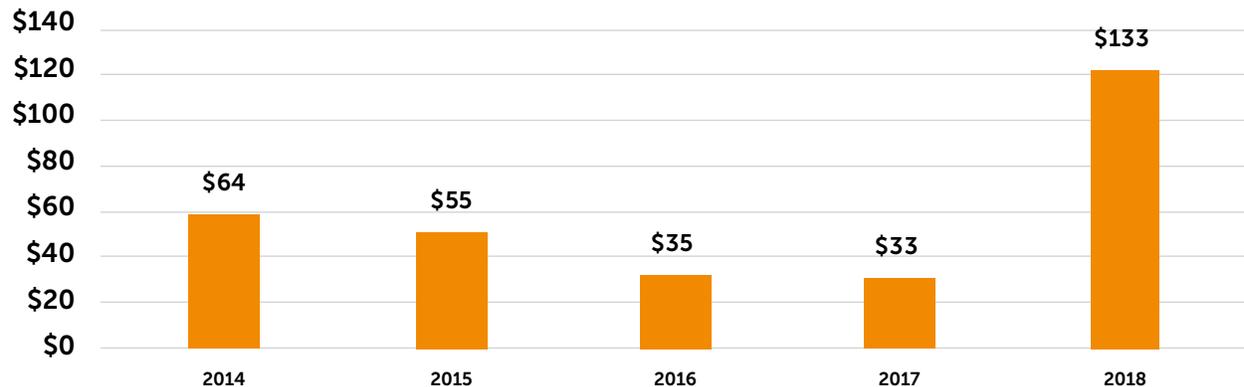
### BONDS PAYABLE

Dollars in Millions



### NOTES PAYABLE

Dollars in Millions

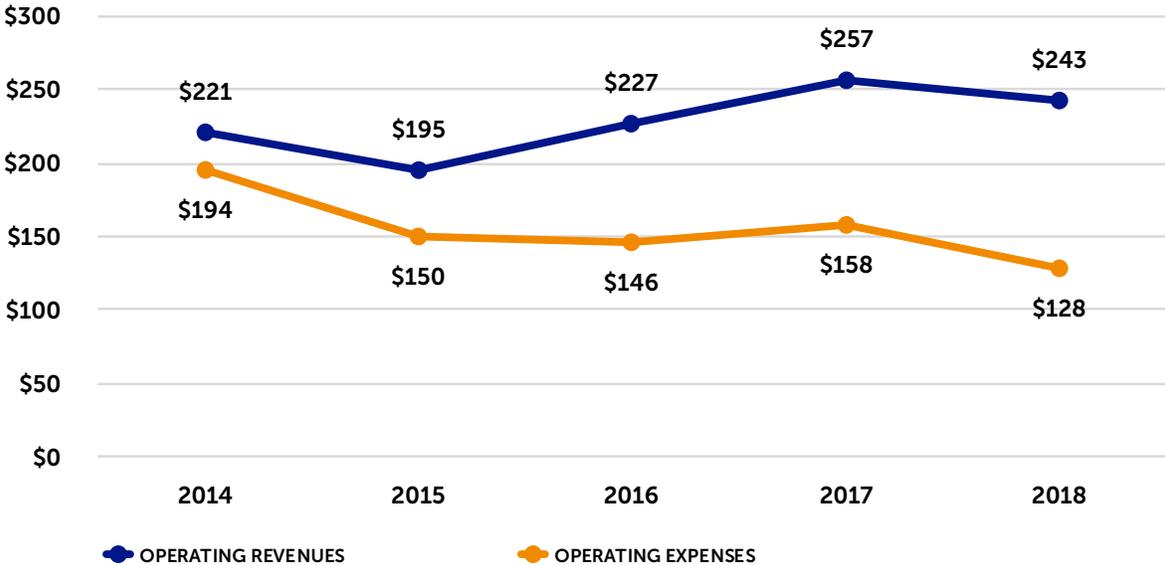


# Financial Highlights

The Fund’s operating revenues and expenses are activities classified as the core business of the Fund. The Fund’s primary operating revenue is derived from the interest income on Single Family and Multifamily loans as well as the Single Family Lending Program fee revenue and gain on sale of the securities related to the Single Family Lending Program. The Fund’s primary expense is interest expense on bonds outstanding. Net interest income is an important measure of performance for the Fund.

## OPERATING REVENUES AND OPERATING EXPENSES

Dollars in Millions



Change in fair value of investments was reclassified to operating revenues and expenses from non-operating revenues and expenses. Reclassification was made to FY 2017 and 2016 comparative information to conform to current year presentation.

Total operating revenue of the Fund was \$243.3 million for FY 2018 compared to \$256.9 million for FY 2017, a decrease of \$13.6 million or 5.3%. The FY 2018 decrease is primarily due to the decrease of \$19.6 million on the interest income from related program loan receivables. Although the Single Family Lending TBA market rate program had a record year, the related gain on sale of securities decreased by \$8.4 million to \$85.4 million due to an increase in interest rates associated with the program. On the other hand, other revenues increased by \$13.6 million primarily due to the increase in TBA market rate program fee revenue earned as loan volume increased.

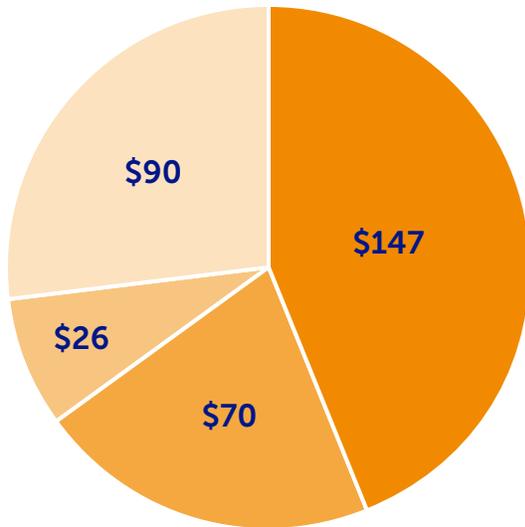
Total operating expenses of the Fund were \$128.2 million for FY 2018 compared to \$157.9 million for FY 2017, a decrease of \$29.7 million or 18.8%. The FY 2018 decrease is primarily due to the decrease in interest expense and other expenses by \$14.9 million and \$13.9 million, respectively. The decrease in interest expense is primarily due to the decrease in related bonds payable from early bond redemptions and scheduled maturities. The decrease in other expenses is primarily due to the decrease in bad debt expense associated with allowance for interest receivables and hedging costs associated with the Single Family Lending TBA Program.

# Financial Highlights

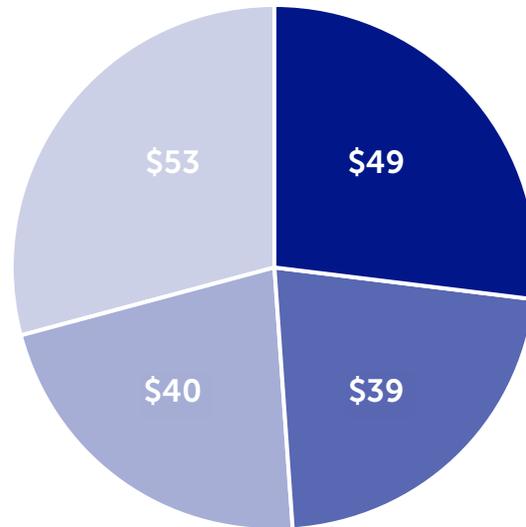
2018 TOTAL REVENUES: \$333 MILLION

2018 TOTAL EXPENSES: \$181 MILLION

(DOLLARS IN MILLIONS)



- INTEREST INCOME - 44%
- REALIZED GAIN/LOSS ON SALE OF SECURITIES - 21%
- OTHER LOAN FEE & OTHER REVENUES - 8%
- NON-OPERATING REVENUES - 27%



- INTEREST EXPENSES - 27%
- SALARIES & GENERAL EXPENSES - 22%
- OTHER LOAN FEE & OTHER EXPENSES - 22%
- NON-OPERATING EXPENSES - 29%

## NON-OPERATING REVENUES AND EXPENSES

The Fund's non-operating revenues and expenses include the reporting of HUD's Section 8 Housing Assistance Program and Section 811 Project Rental Assistance Demonstration Program along with the Department of Treasury's National Foreclosure Mitigation Counseling Program. Also included in this section are activities not classified as core business activities of the Fund.

Non-operating revenues and non-operating expenses were \$89.5 million and \$52.7 million for FY 2018, respectively. Total non-operating revenue and expense was \$36.8 million for FY 2018, a decrease of \$14.5 million from FY 2017. The decrease is primarily due to the decrease in Investment SWAP revenue (fair value). The six-year taxable rate used in the fair market valuation process had a significant increase of approximately 0.85% in FY 2018.

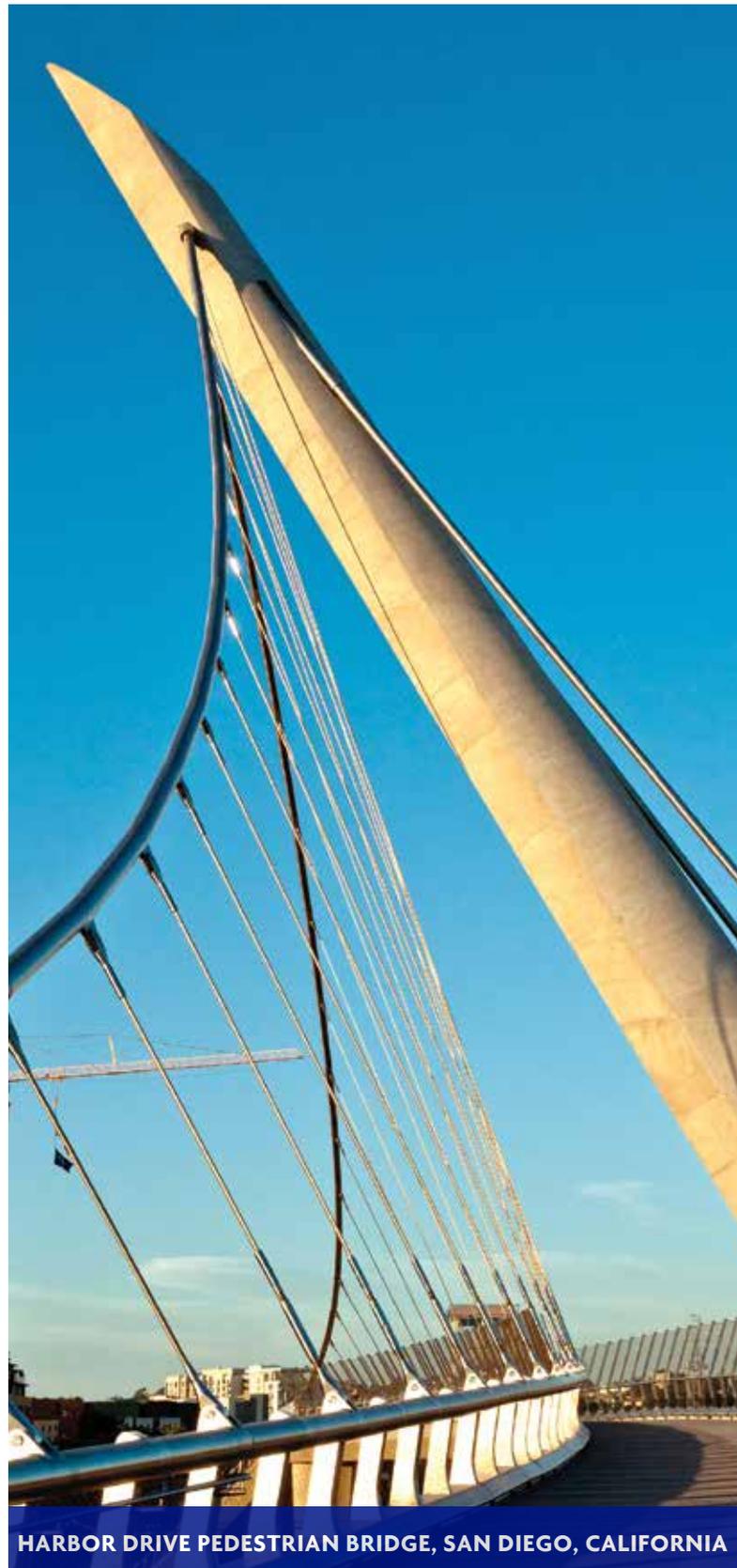
# Financial Highlights

## ECONOMIC CONDITION AND OUTLOOK

The Fund's housing programs are the primary source of income for the Fund. Various economic and regulatory factors such as prevailing economic conditions, mortgage interest rates, investment rates, the demand for housing, the cost of housing and of operating housing programs, the volume of mortgage lending activity in the State and other factors affecting the supply of housing in the State can create significant challenges for the Agency in single family and multifamily housing programs as well as its overall operations.

The Fund's total amount of outstanding indebtedness cannot exceed \$13.1 billion at any time. Additionally, the Fund has an annual resolution approved by the Agency's governing board limiting the taxable bond issuance to \$100 million for Single Family programs. The Multifamily programs limit is set at \$250 million for 501(c)(3) and taxable issues. During the first ten years from the original single family bond issuances, the Fund has the option to use monies from certain repayments and prepayments of mortgage loans to be "recycled" for additional mortgage loans instead of issuing new debt. If the market interest rates on mortgages are lower than the corresponding bond rates, the Fund may redeem bonds in lieu of recycling.

Agency's lending activities have experienced excellent progress during the FY 2018. The revenues generated from the participation in the TBA market rate program accounted for nearly 35% of the agency's total operating revenues during FY 2018 and will continue to have a significant impact on the Agency's operations in FY 2019. The continued growth is partially attributable to implementation of operational efficiencies, including the change of master servicer. The volume of single family first mortgage securitizations through the TBA market rate program reached over \$2.07 billion, an all-time record for CalHFA, and \$134 million in subordinate



HARBOR DRIVE PEDESTRIAN BRIDGE, SAN DIEGO, CALIFORNIA

# Financial Highlights

## ECONOMIC CONDITION AND OUTLOOK

lending for down payment assistance (“DPA”) and/or closing costs. Although multifamily lending activities fell short of projected lending activities, the Agency’s pipeline of multifamily loans is expected to surpass FY 2018 based on its composition of new permanent takeout loans that have longer duration and better yields. This is in contrast to FY 2017, when many of the multifamily transactions were portfolio recapitalizations in which yield maintenance concessions have partially offset revenues. Further, we are pleased to report the Fund’s successful efforts to strengthen its financial position by continuing its partnerships with the Federal Financing Bank and the Federal Home Loan Bank of San Francisco, which provide credit facilities for both Single Family and Multifamily programs and increasing return on equity.

The U.S. economy, particularly the housing market and low interest rates, have had a significant impact on the Fund’s operations during the past several years. The continued increase in interest rates along with predictions of increasing interest rates in the future have improved the Fund’s position, especially in regards to its derivative agreements. The Agency has a significant (although decreasing) interest-rate swap portfolio and fluctuations in interest rates can impact the Agency’s collateral posting requirements.

In general, higher interest rates will reduce the collateral posting requirements and improve the Agency’s liquidity profile, while lower interest rates will increase the collateral posting requirements and limit the Agency’s liquidity profile. Due to the significant decrease in the notional amount of the Agency’s interest-rate swap portfolio since the housing crisis, however, the collateral posting requirements have not fluctuated significantly. Based on the remaining independent collateral posting requirements, fluctuations in the collateral postings, if any, would be minimal.

In addition to modifying the Agency’s lending activities to increase operational revenues, the Agency plans to continue to combat the challenges of the economy by actively reducing its debt costs through both refunding opportunities and early redemption of debt, especially with regards to its variable rate debt.

Another significant factor impacting the Agency’s operations is the trend in California home sale prices, which continued to increase for a fourth year in FY 2018. The upward trend in single family home prices has had a positive impact on the Agency’s profitability, although if prices trend too high, first-time homebuyers may be unable to afford homes in high-cost areas.

The Agency has primarily three credit ratings that impact its financial results:

- (i)** CalHFA’s issuer credit rating (S&P “A positive outlook”/Moody’s “A1 positive outlook”)
  - During FY 2018, CalHFA’s issuer credit rating with S&P stayed the same “A positive outlook” and Moody’s rating improved from “A2 positive outlook” to “A1 positive outlook.”
- (ii)** Home Mortgage Revenue Bonds (S&P “AA- positive outlook”/Moody’s “A1 positive outlook”)
  - During FY 2018, CalHFA’s Home Mortgage Revenue Bonds S&P’s underlying ratings outlook stayed the same “AA- positive outlook” and Moody’s underlying rating stayed the same “A1 positive outlook.”
- (iii)** Multifamily Housing Revenue Bonds III (S&P “AA+ stable outlook”/Moody’s “A1 positive outlook”)
  - During FY 2018, S&P affirmed CalHFA’s Multifamily Housing Revenue Bonds III rating remained unchanged. Moody’s outlook improved from “A1 stable outlook” to “A1 positive outlook.”

# Financial Highlights

As the Fund moves into fiscal year 2019 and on into the future, the Fund will also continue to search for new methods to expand its Single Family and Multifamily lending activities consistent with State housing needs, work collaboratively with other housing entities and stakeholders to deliver effective innovative housing solutions and prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and/or significant negative equity.

## REQUEST FOR INFORMATION

Questions concerning any of the information presented in this financial report or requests for additional information should be addressed to:

CalHFA Financing Division  
500 Capitol Mall, Suite 1400  
Sacramento, CA 95814  
Phone: 916.326.8650  
Fax: 916.322.1464  
[financing@calhfa.ca.gov](mailto:financing@calhfa.ca.gov)

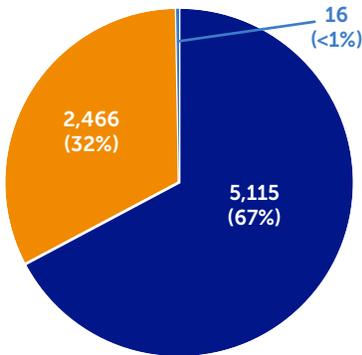


FELTON COVERED BRIDGE, FELTON, CALIFORNIA

# Statistical Snapshot

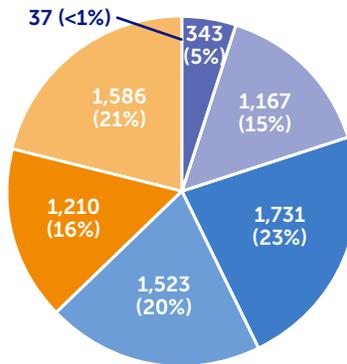
## SINGLE FAMILY

FHA VS. CONVENTIONAL LOAN COUNT



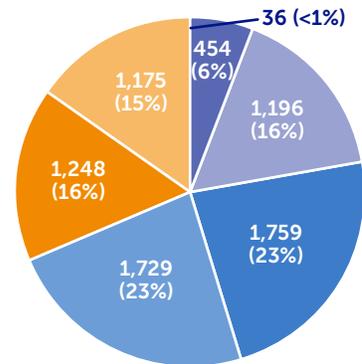
- FHA LOANS
- CONVENTIONAL LOANS
- VA LOANS

LOANS BY SALES PRICE



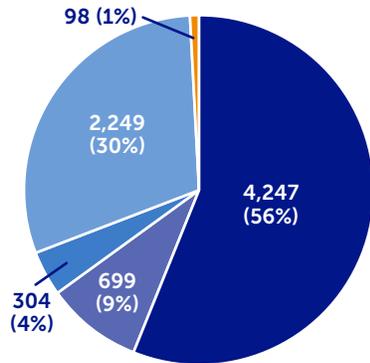
- LESS THAN \$100,000
- \$100,001 TO \$150,000
- \$150,001 TO \$200,000
- \$200,001 TO \$250,000
- \$250,001 TO \$300,000
- \$300,001 TO \$350,000
- \$350,001 AND OVER

LOANS BY INCOME



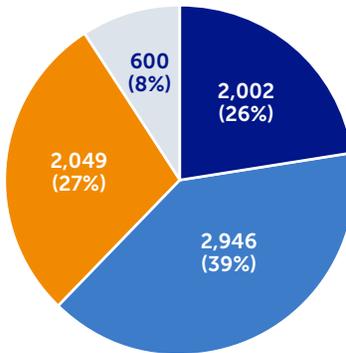
- LESS THAN \$25,000
- \$25,001 TO \$40,000
- \$40,001 TO \$55,000
- \$55,001 TO \$70,000
- \$70,001 TO \$85,000
- \$85,001 TO \$100,000
- \$100,001 AND OVER

LOANS BY ETHNICITY



- HISPANIC
- WHITE
- AFRICAN AMERICAN
- ASIAN
- OTHER

LOANS BY HOUSEHOLD SIZE



- 1-2
- 3-4
- 5-6
- 6+

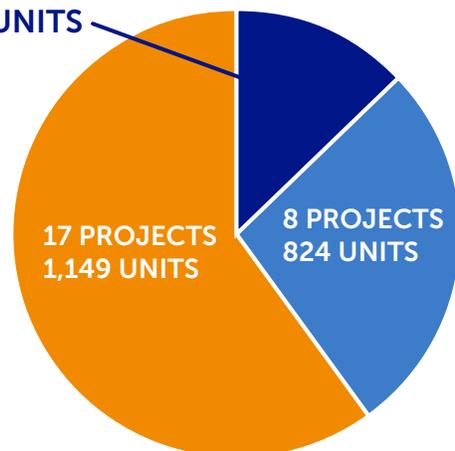
## MULTIFAMILY

Total MF lending:

30 PROJECTS  
2,382 UNITS

- NORCAL - 17%
- BAY AREA - 35%
- SOCAL - 48%

5 PROJECTS, 409 UNITS





**CALIFORNIA HOUSING  
FINANCE AGENCY**

**A COMPONENT UNIT OF  
THE STATE OF CALIFORNIA**

**SACRAMENTO OFFICE**

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**2017 | 2018**

**POPULAR ANNUAL  
FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2018**