

# Fiscal Year 2019-20 Mid-Year Business Plan and Operating Budget Update

March 17, 2020

# Fiscal Year 2019-20

## Approved Business Plan

### Goal #1

- Promote state-wide affordable housing production and opportunities for homeownership while maintaining financial sustainability and independence

### Goal #2

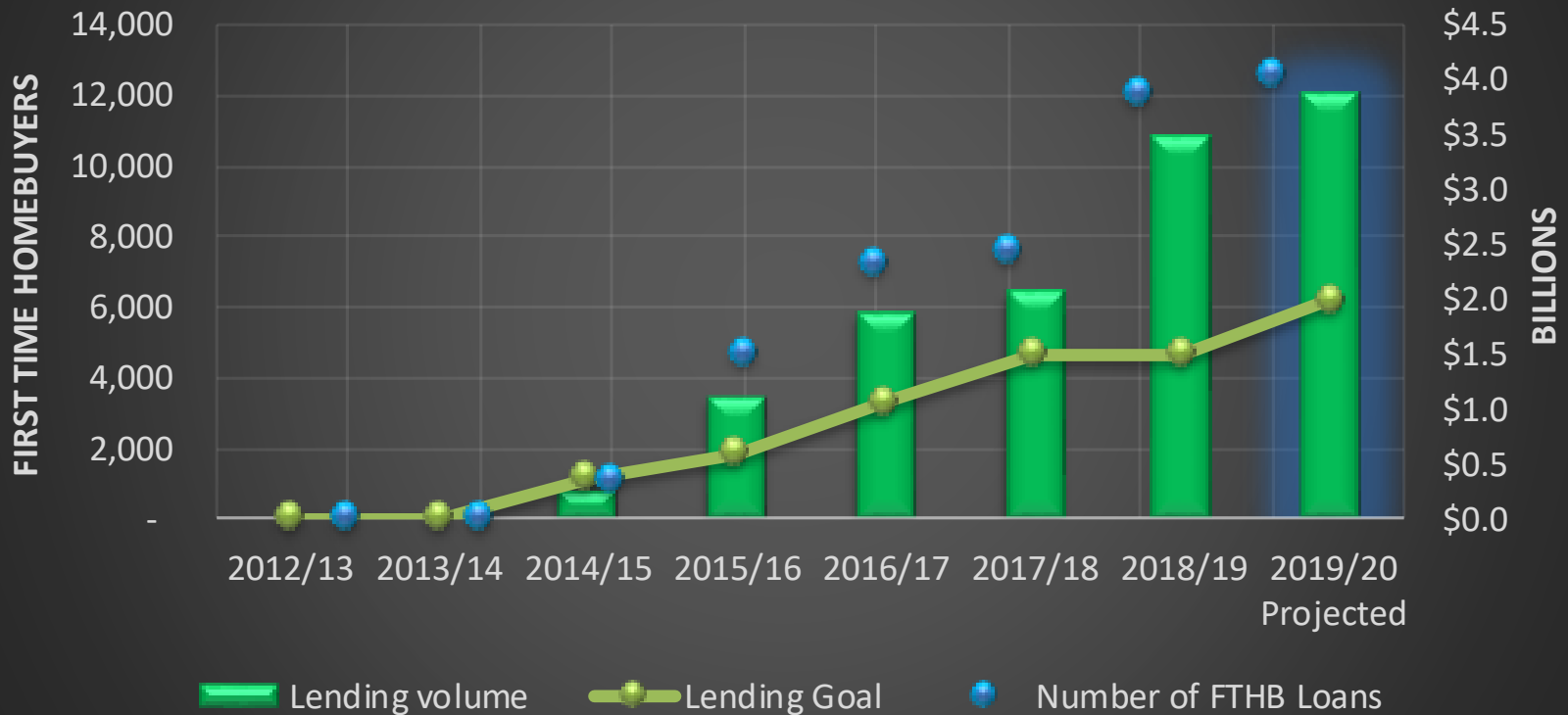
- Continue to improve operational efficiencies through the use of technology, workforce planning, and the implementation of best practices

### Goal #3

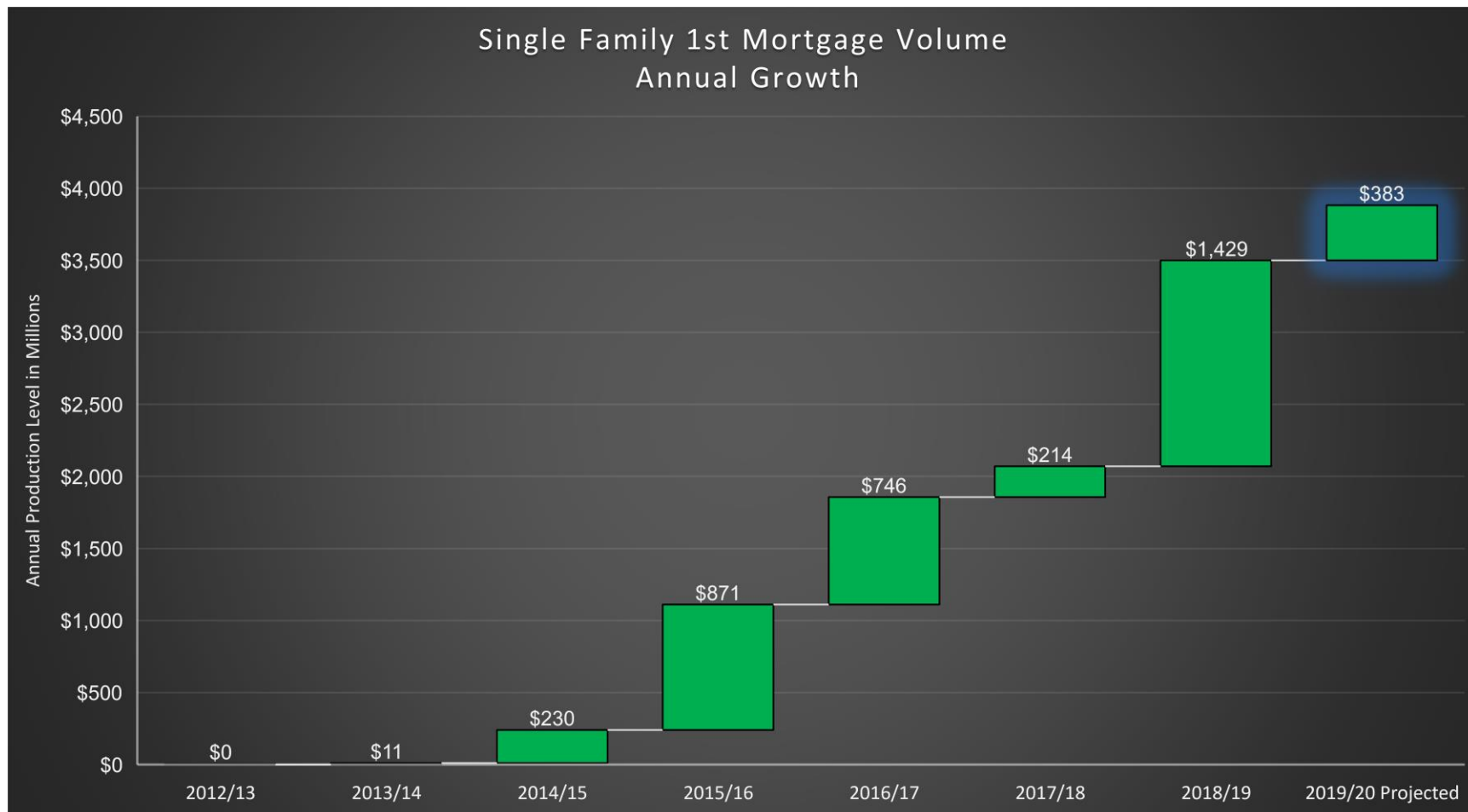
- Collaborate with other housing entities, lenders (both public and private), and stakeholders who complement CalHFA's lending objectives and policy priorities in order to deliver effective and innovative housing solutions

# Single Family Historical Trends

## Single Family Lending Volume



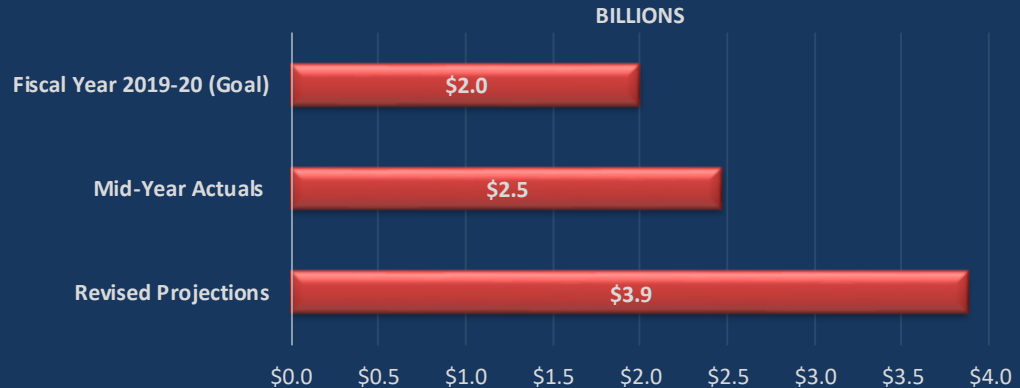
# Single Family Historical Trends (Cont.)



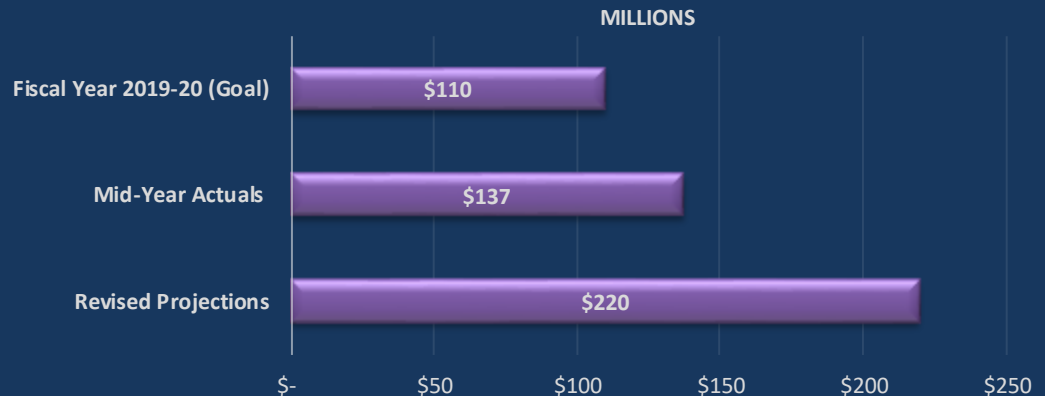
## Goal #1 Key Strategy

*Promote sustainable homeownership opportunities by expanding eligibility requirements and product offerings while serving a broad range of income and housing needs*

### Single Family (1st Mortgage Lending Volume)

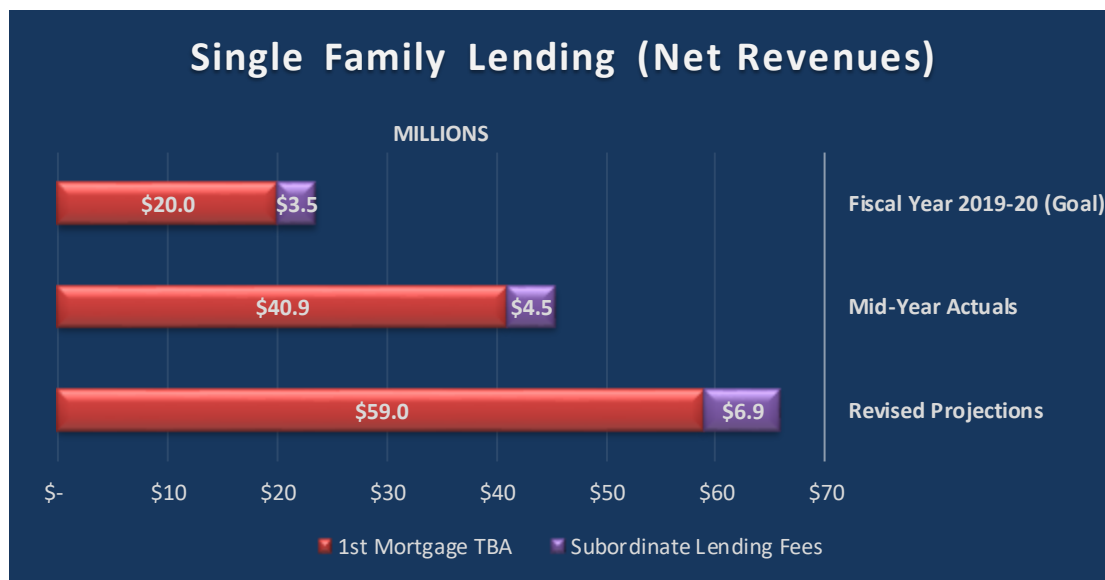


### Single Family (Subordinate Lending Volume)



## Goal #1 Key Strategy

*Promote sustainable homeownership opportunities by expanding eligibility requirements and product offerings while serving a broad range of income and housing needs*



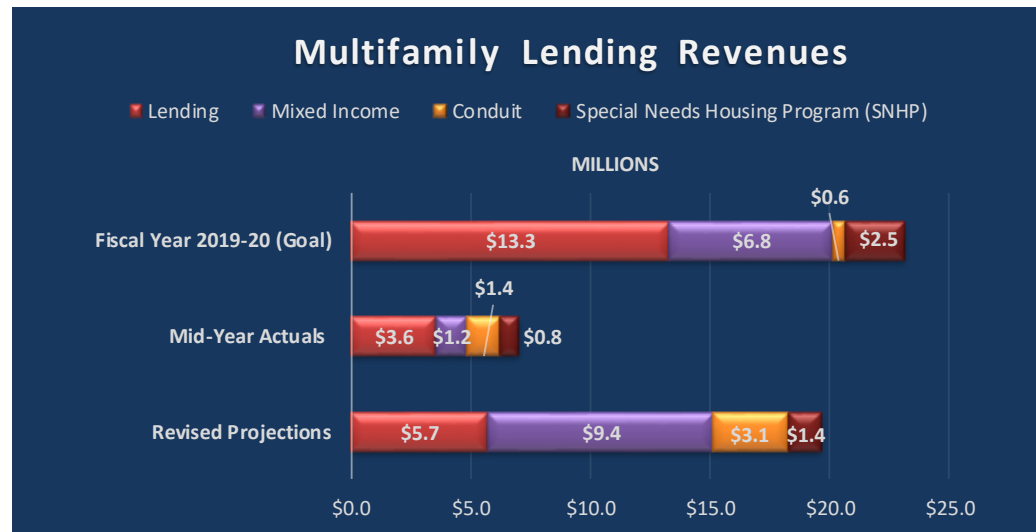
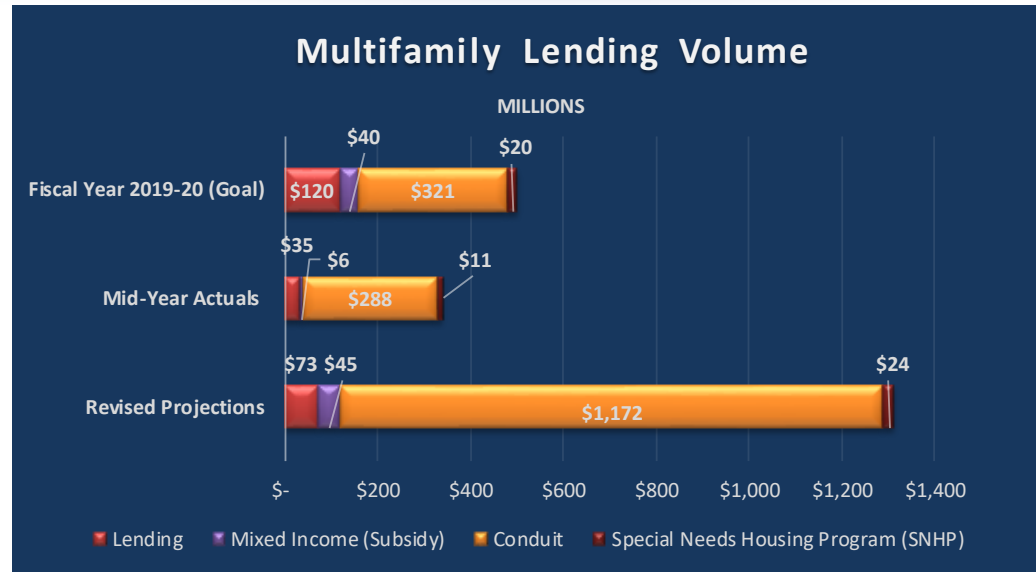
## **Goal #1 Key Strategy**

***Promote sustainable homeownership opportunities by expanding eligibility requirements and product offerings while serving a broad range of income and housing needs***

- Launched the HUD 184 Indian Home Loan Guarantee Program
- Launched the USDA Homeownership Program for rural communities
- Completed preparation for the rollout of the Fannie Mae Homestyle Renovation program which is expected to go live prior to end of fiscal year
- Completed program changes that will incentivize new construction homeownership opportunities

## Goal #1 Key Strategy

*Expand multifamily lending opportunities and unit production while addressing preservation needs and providing incentives for mixed-income housing*





## Goal #1 Key Strategy

***Strengthen Agency financial position by monetizing assets for liquidity while maximizing return on equity and investment***

- Completed the research necessary to stand up a bond recycling program
- Successfully renewed letters of credit supporting variable rate demand obligations
- Standard and Poor's raised CalHFA's issuer credit rating, from 'A+' to 'AA-' with a stable outlook. This returns CalHFA's Issuer Credit Rating to the same level as it was prior to the collapse of the housing market during the Great Recession.
- Citibank Securitizations

CalHFA Credit Ratings		
(FY 2019-20)	S&P	Moody's
Overall Issuer	AA-, stable outlook ↑	A1, positive outlook ↑
Single Family Indenture (HMRB)	AA, positive outlook ↑	A1, positive outlook
Multifamily Indenture (MHRBIII)	AA+, stable outlook	A1, positive outlook ↑

## Goal #2 Key Strategy

*Continue to improve operational efficiencies through the use of technology, workforce planning, and the implementation of best practices:*

- Completed Request for Proposal (RFP) for a vendor to provide Optical Character Recognition (OCR) software to extract and compare data from Single Family lending documents to streamline and automate manual processes
- Agency received the second consecutive award for Excellence in Financial reporting from the Government Finance Officers Association (GFOA)
- Implemented Dynamics Budgets software to streamline Agency budget preparation process
- Identified new multifamily software that will potentially consolidated both the origination platform and the asset management platform into a single system eliminating manual processes and improve data collection and reporting
- Developed and implemented a plan to transition residual KYHC activities to Loan Administration, Fiscal Services and IT
- Completed recruitments for key senior staff positions

## Goal #3 Key Strategy

**Collaborate with other housing entities, lenders (both public and private), and stakeholders who complement CalHFA's lending objectives and policy priorities in order to deliver effective and innovative housing solutions**

- Executive Director serves as Board Chair of the National Council of State Housing Agencies
- Serves as a technical advisor to the Governor's Office on housing related matters
- Voting member of the State Tax Credit Allocation Committee
- Ex-officio member of the State Debt Limit Allocation Committee
- Serves on Freddie Mac Housing for Tomorrow Council
- Serves on BBVA Compass Community Advisory Board on housing policy
- Collaborate with HCD, DGS and the Governor's office on State Excess Property
- Serves on the Homeless Coordinating and Financing Council
- Serves on the Fannie Mae Rural Duty to Serve Advisory Council
- Assists HCD with the Veterans Housing & Homelessness Prevention Program and the HUD 811 Project Rental Assistance Program

# FY 2019-20 Mid-Year Business Plan Update

## Questions?

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# **Mid-Year Update on the FY 2019-20 Operating Budget**

March 17, 2020

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**CALIFORNIA HOUSING FINANCE AGENCY  
MID-YEAR 2019-20 BUDGET UPDATE  
(DOLLARS IN THOUSANDS)**

	Approved Budget	Mid-Year Budget	Mid-Year Actuals	Variance	%	Projected 2019-20
<b>RESOURCES</b>						
Loan Servicing	\$ 1,500	\$ 750	\$ 875	\$ 125	16.7%	\$ 1,625
Insurance Release	\$ 500	\$ 250	\$ 332	\$ 82	32.7%	\$ 582
Loan Repayments	\$ 23,861	\$ 11,931	\$ 19,877	\$ 7,946	66.6%	\$ 37,331
Interest (mortgages/securities/cash)	\$ 13,995	\$ 6,998	\$ 9,501	\$ 2,504	35.8%	\$ 12,510
Fee Income	\$ 30,621	\$ 15,310	\$ 47,181	\$ 31,871	208.2%	\$ 68,081
Extraordinary Items	\$ -	\$ -	\$ 3,322	\$ 3,322	0%	\$ 3,322
<b>TOTALS</b>	<b>\$ 70,477</b>	<b>\$ 35,238</b>	<b>\$ 81,088</b>	<b>\$ 45,850</b>	<b>130.1%</b>	<b>\$ 123,451</b>
<b>OPERATING BUDGET</b>						
Salaries and Wages	\$ 18,292	\$ 9,146	\$ 8,106	\$ 1,040	11.4%	\$ 16,000
Reimbursements	\$ (324)	\$ (162)	\$ (219)	\$ 57	-35.2%	\$ (350)
Benefits	\$ 10,514	\$ 5,257	\$ 4,425	\$ 832	15.8%	\$ 9,250
General Expense	\$ 775	\$ 388	\$ 320	\$ 68	17.4%	\$ 675
Communications	\$ 407	\$ 204	\$ 205	\$ (2)	-0.7%	\$ 400
Travel	\$ 638	\$ 319	\$ 162	\$ 157	49.2%	\$ 500
Training	\$ 270	\$ 135	\$ 47	\$ 88	65.2%	\$ 175
Facilities Operation	\$ 3,115	\$ 1,558	\$ 1,440	\$ 118	7.5%	\$ 3,000
Consulting & Professional Services	\$ 2,867	\$ 1,434	\$ 608	\$ 826	57.6%	\$ 1,500
Central Administrative Services	\$ 2,699	\$ 1,350	\$ 1,768	\$ (419)	-31.0%	\$ 2,690
Information Technology	\$ 2,326	\$ 1,163	\$ 697	\$ 466	40.1%	\$ 2,200
Equipment	\$ 180	\$ 90	\$ 42	\$ 48	53.3%	\$ 100
<b>TOTALS</b>	<b>\$ 41,759</b>	<b>\$ 20,880</b>	<b>\$ 17,601</b>	<b>\$ 3,279</b>	<b>15.7%</b>	<b>\$ 36,140</b>
<b>NET SURPLUS/(EXPENDITURE)</b>	<b>\$ 28,718</b>	<b>\$ 14,358</b>	<b>\$ 63,487</b>	<b>\$ 49,129</b>	<b>342.2%</b>	<b>\$ 87,311</b>

Questions?

# Homeownership via CalHFA

March 17, 2020

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## CalHFA's loan production numbers

- In 2019, helped 14,142 families achieve the dream of homeownership.

	<u>Loan #</u>	<u>Loan \$</u>	<u>YoY</u>
<i>Total</i>	14,142	\$4,295	+4230/+\$1503
	-----	-----	
<i>FHA</i>	9,841	\$2,953	
<i>Conventional</i>	4,221	\$1,315	
<i>VA</i>	0,073	\$0,026	
<i>USDA</i>	0,007	\$0,001	

# Why Homeownership?

- It is workforce housing.

## Income

< \$50K	10%
\$50,001 - \$75K	31%
\$75,001 - \$100K	30%
\$100,001 - \$125K	20%
\$125,001 - \$150K	06%
\$150,001+	02%

## Statewide Median Income (2018)

< \$86K	56%
\$86K - \$129K (150%)	38%
\$129K+	06%

# Who are our borrowers?

- Reflect CA's diversity.

	CalHFA		
	<u>2019</u>	<u>State*</u>	<u>+/-</u>
Hispanics	52%	39%	+13%
White	34%	37%	-3%
African American	08%	5.5%	+2.5%
Asian	04%	14%	-10%
Pacific Islander	0.7%	0.4%	+0.3%
American Indian	0.4%	0.4%	---

*\* 2018 US Census Bureau Estimates*

## Where are our borrowers?

- Top 5 counties produce 50%+ of our loans.

Riverside	13%
San Bernardino	13%
Sacramento	11%
Los Angeles	08%
Kern	07%
	-----
	52%

## Why via CalHFA?

- CalHFA advocates sustainable homeownership via mandatory programmatic overlays:
  - homebuyer education with counseling
  - home warranty protection plan
  - prudent underwriting:
    - i) debt-to-income ratio: 45% maximum
    - ii) minimum FICO score: 660
- CalHFA provides unique benefits to its borrowers:
  - higher combined loan-to-value ratio
  - no loan-level adjustment fee for conventionally-insured loans
  - State-funded down payment assistance loans

## How the State of CA can help

- Provide a permanent, ongoing source for down payment assistance

# FY 2019-20 Initiatives

## July to December 2019

- |   |           |                            |
|---|-----------|----------------------------|
| • Program and operational changes triggered by ML 19-06 | July      | <i>compliance</i>          |
| • Fannie Mae' reformulation of HFA Preferred            | July/Sept | <i>restructure program</i> |
| • USDA *  | Sept      | <i>menu expansion</i>      |
| • HUD Section 184 Indian Loan Guarantee Program *       | Sept      | <i>menu expansion</i>      |

## January to June 2020

- |   |      |                               |
|---|------|-------------------------------|
| • No Cap for Specialty Programs - \$10K Cap for non-Specialty | Mar  | <i>conserve DPA</i>           |
| • Fannie Mae HomeStyle Energy Efficient *                     | Mar  | <i>menu expansion</i>         |
| • Partnership with Apple                                      | Mar  | <i>new source of DPA</i>      |
| • Transition KYHC Servicing to Loan Admin *                   | June | <i>restructure operations</i> |
| • Revise Lender Scorecard to include loan performance         | June | <i>streamline</i>             |

\* Action items on the FY 2019-20 Strategic Business Plan

# Possible FY 2020-21 Initiatives

## July to December 2020

- |   |    |                              |
|---|----|------------------------------|
| • Fannie/Freddie's standard for subordinate note/deed | Q1 | <i>compliance</i>            |
| • FHA 203(h) for disaster victims                     | Q2 | <i>menu expansion</i>        |
| • Fannie Mae's new data upload processes (URLA)       | Q2 | <i>streamline operations</i> |
| • OCR: Pre-submission                                 | Q2 | <i>streamline operations</i> |

## January to June 2021

- |   |       |                                |
|---|-------|--------------------------------|
| • OCR: Compliance Review – Purchase Review          | Q3-Q4 | <i>streamline operations</i>   |
| • CFPB's decision on QM "patch" of 43% DTI for GSEs | Q3    | <i>restructure, compliance</i> |
| • Track's Fannie Mae's Duty to Serve Mandate        | ASAP  | <i>menu expansion</i>          |





California Housing Finance Agency

# CalHFA Multifamily Programs Board of Directors March 17, 2020

# Agenda

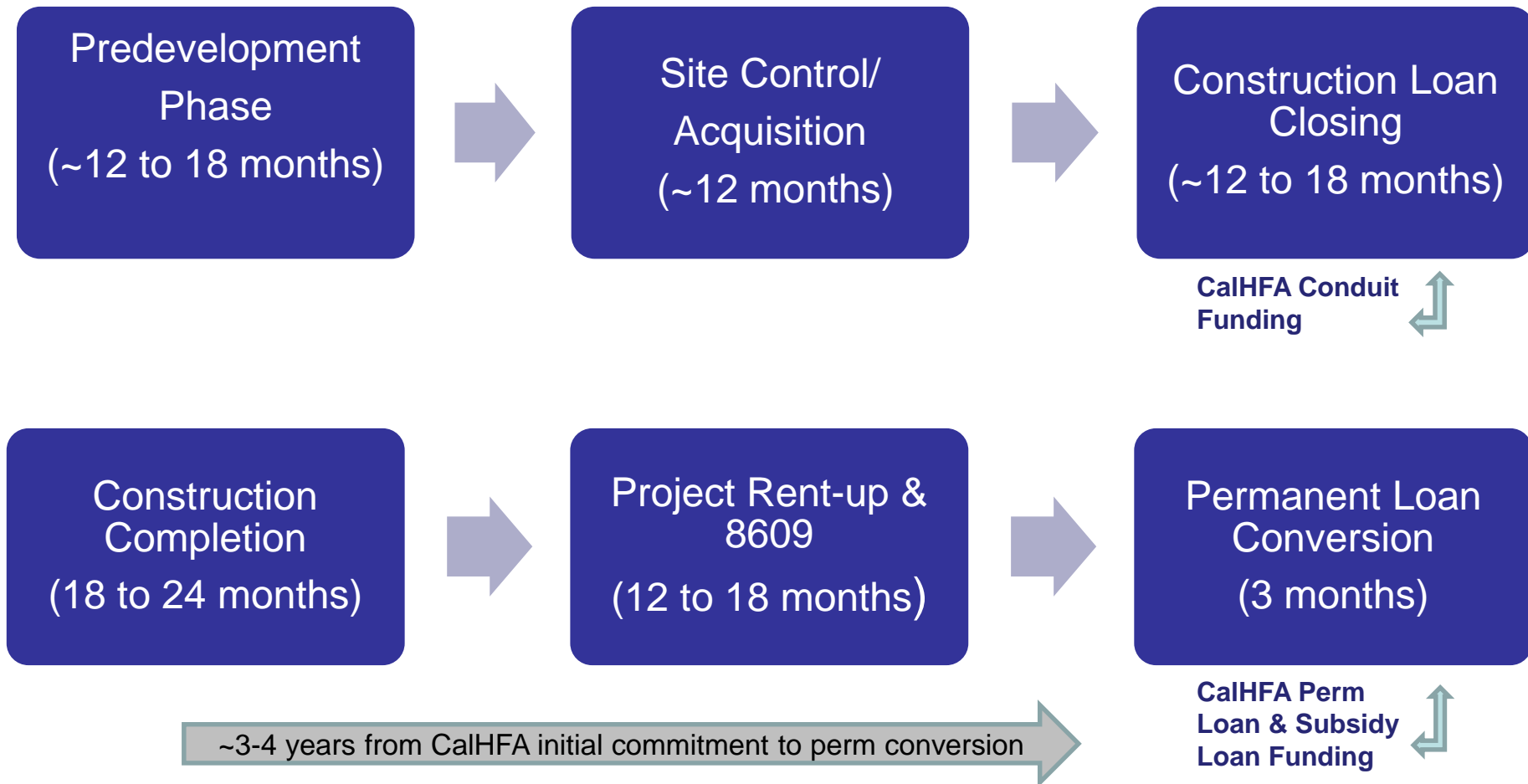
- Lending Projections
- Strategic Initiatives
- Challenges
- Looking Ahead

# Fiscal Year 2019-20 Full Year Projections – Assumptions and Methodology

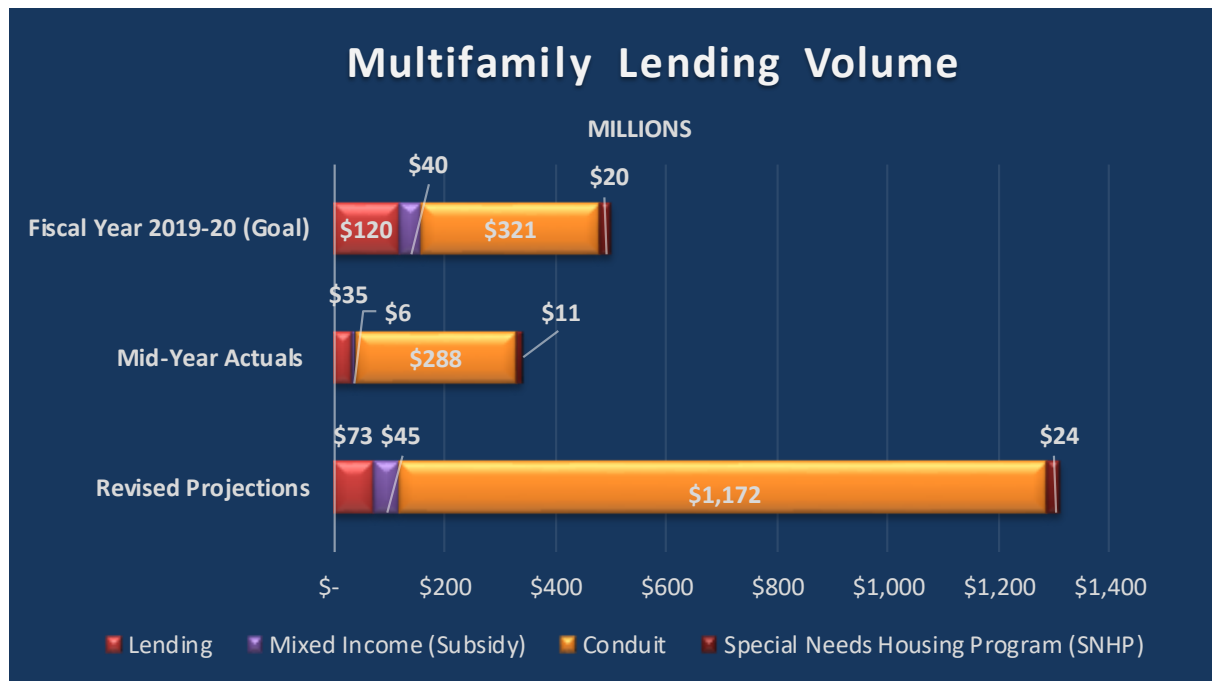
## 2019-20 Projections

- All projections are based on projects in the pipeline as of February 28, 2020
- Any project with a close date in June 2020 was automatically pushed to the next fiscal year (FY 20-21), unless the project had a firm CDLAC deadline and must close in June 2020
- For projects with multiple types of loans, units are counted based on the following hierarchy:
  - Mixed Income Program (MIP)
  - Perm Lending
  - Special Needs Housing Program (SNHP)
  - Conduit Issuer Program

# Project Funding Cycle & Timeline



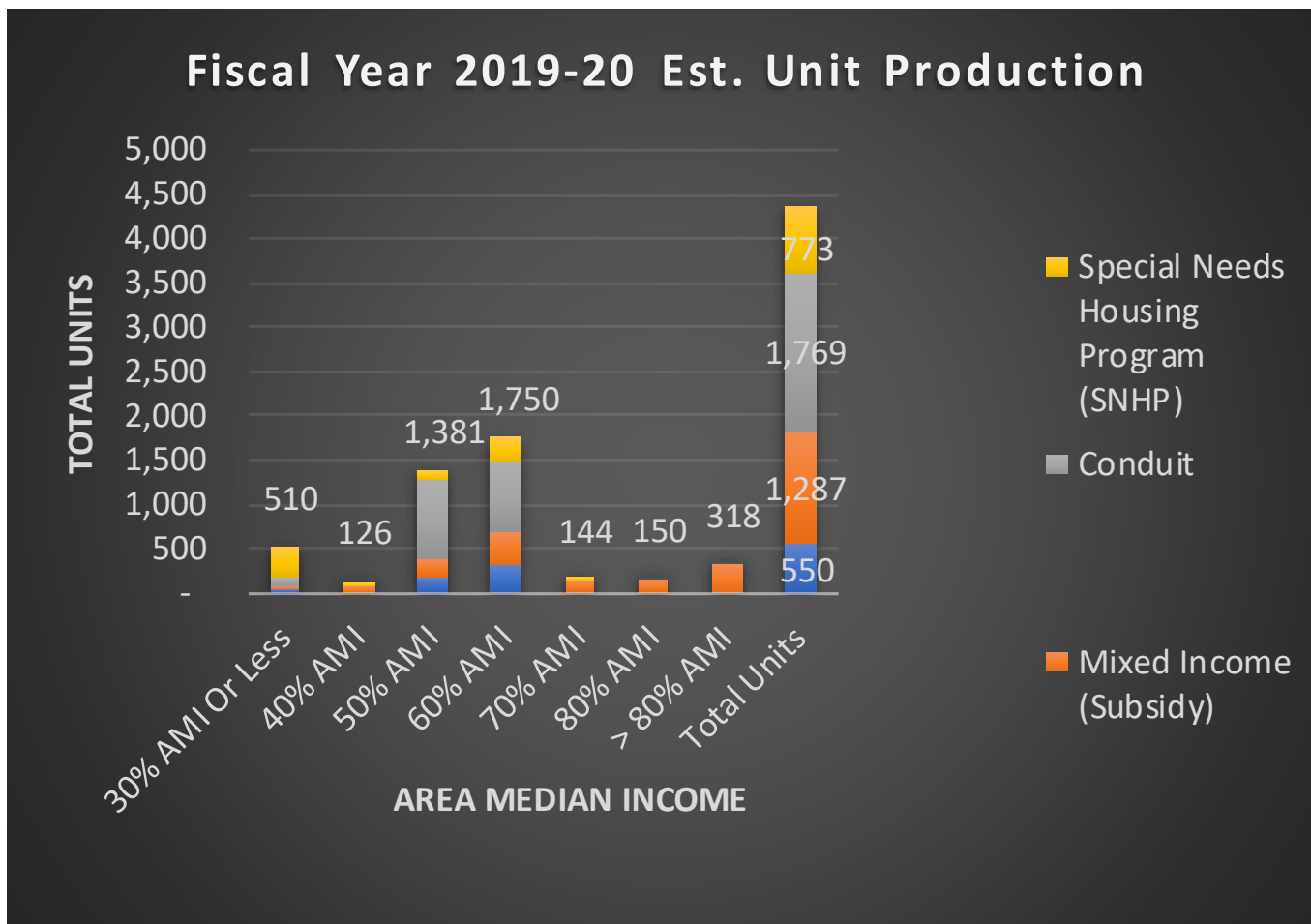
# Fiscal Year 2019-20



## Production Drivers:

- MIP Subsidy dollars and State Tax Credits
- Timing of Conduit vs. Perm and MIP Loans

# Unit Production by Product Type & Affordability



# Fiscal Year 2019-20 Initiatives Update

1. Wind-down Special Needs Housing Program (SNHP)
  2. Launch efforts to expand Conduit Issuance to communities that are underserved and lack capacity
  3. Monitor market acceptance of Mixed Income Program (MIP) and modify as needed to ensure full and efficient utilization of funds
  4. Monitor allocation of additional state resources (AB101) for Mixed Income Program and develop strategies for deployment
  5. Implement Portfolio Preservation strategy to retain CalHFA portfolio projects with maturities in the next 5 years
  6. Implement strategies to expand underwriting capacity and ensure efficient program execution
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# Challenges to Strategy and Production

- Uncertainty of Funding Resources could impact strategy:
  - State Tax Credits subject to appropriation
  - Competitive Bond Cap
  - Economic impact of COVID – 19
    - Increased costs of raw materials and labor
    - Stress on compliance dates for CDLAC/TCAC
    - Interest Rate Fluctuations
    - Pressures on State Budget due to COVID 19
- Affordable housing need remains unchanged



# Looking Ahead

- **Ongoing Multi-Year Priorities** (as outlined above) will continue:
  - Wind-down SNHP Program – completion FY 2021-22
  - Monitor market acceptance of MIP and modify as needed - ongoing
  - Monitor allocation of additional state resources for MIP and develop strategies for deployment - ongoing
- **New Priorities 2020-21**
  - Close out HUD TCA and 811 Activities
  - Assess and develop new market strategies in light of changing resources and market challenges
  - Finalize transition to new AM system including training
  - Initiate acquisition options for front-end Loan Information System with a focus on improved data reporting