California Housing Financing Agency

Credit Strengths and Capital Markets

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BARCLAYS

CalHFA
California Housing Finance Agency

CalHFA's Ratings were upgraded several times in recent years, demonstrating financial strength and acumen

S&P Highlights

- ☑ **Strong financials** with nearly $2.9B in equity
- ☑ **Above-average profitability** at 16.3% return on average assets (ROA)
- ☑ **Higher-than average asset quality** with average nonperforming assets (NPAs) totaling 1.4%
- ☑ **Stronger-than average liquidity** with average short-term investments at 28.7% of total assets
- ☑ **Extremely strong management team** with strong capabilities, senior experience, and successful track record

Moody's Highlights

- ☑ **Strong overcollateralization levels** at Asset-to-Debt Ratio (ADR) of 3.28x
- ☑ **High level of profitability** with a margin of 53%
- ☑ **Favorable trends in loan performance** with low delinquency rates and loan loss
- ☑ **Strong governance** from management team, beneficial in navigating the potential challenges from the COVID-19 pandemic

2018
S&P Upgrade
From "A" to "A+"

2018
Moody's Upgrade
From "A2" to "A1"

2019
S&P Upgrade
From "A+" to "AA-"

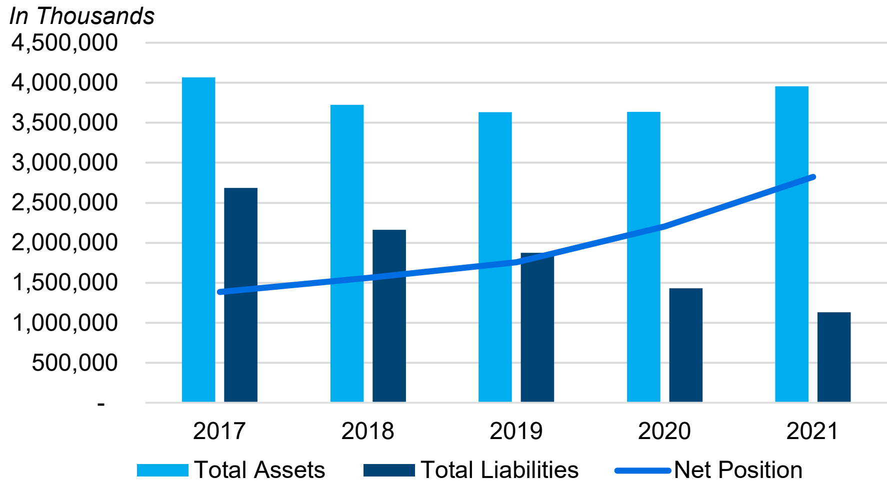
2021
Moody's Upgrade
From "A1" to "Aa3"

2022
S&P Upgrade
From "AA-" to "AA"

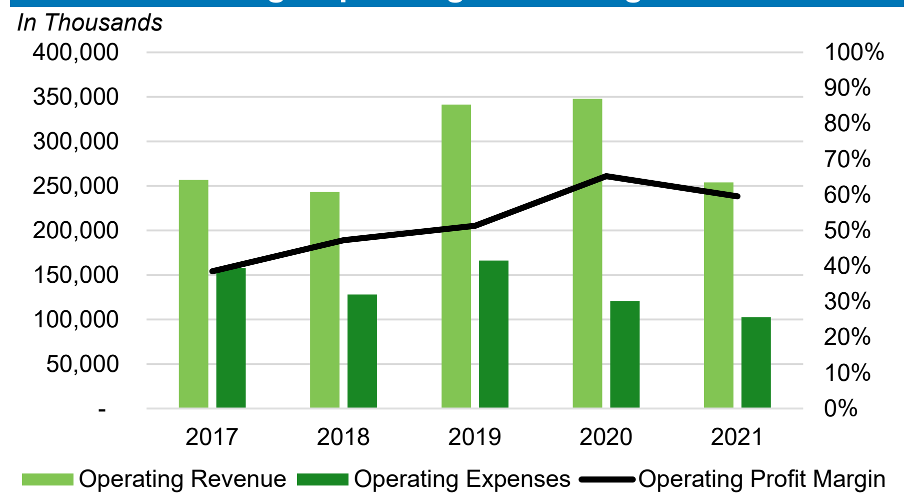
Source: S&P and Moody's rating reports.

CalHFA's Net Position, Liquidity and Operating Margin improved in the last five years

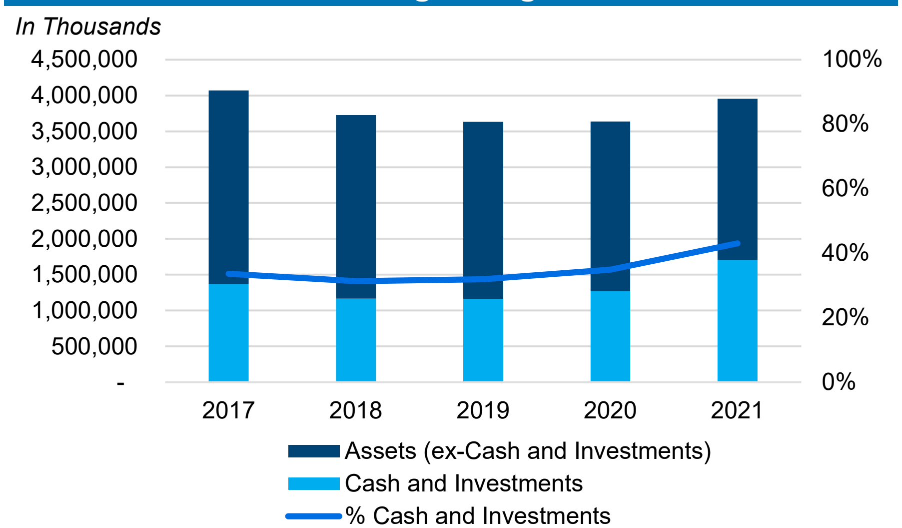
Net Position doubled in 5 years



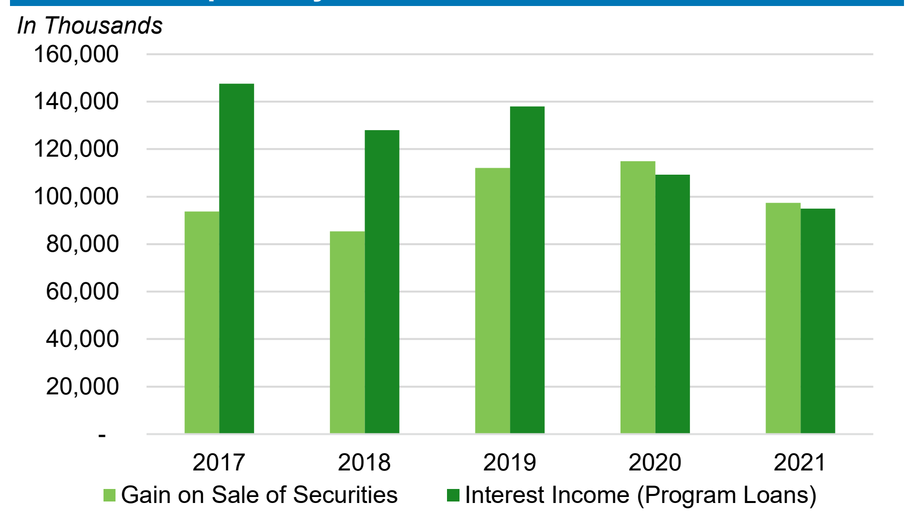
5-YR Average Operating Profit Margin was 52%



Cash & Investments is a growing share of Total Assets



TBA Sales partially offsets a decline in Interest Income



Source: CalHFA Audited Financial Statements.

CalHFA's Financials are unique relative to other HFAs

Select HFA 2021 Financials

	CA	NYC	MA	PA	MI	IL	TX	CO	ID[1]	WA
Ratings (Moody's/S&P):	Aa3/AA	Aa2/AA	Aa3/AA-	AA-	AA-	A1/AA-	Aa3	Aa3/AA-	A1/A+	Aaa
Total Assets (Bn):	4.0	24.4	6.3	4.6	5.2	4.0	3.1	3.7	2.8	1.7
Liquid Assets (Bn):	1.8	4.9	2.3	0.8	1.5	1.4	0.3	2.2	1.2	0.6
Liquid % of Assets:	**44%**	20%	36%	16%	28%	35%	10%	59%	43%	38%
Total Liabilities (Bn):	1.1	20.7	4.8	3.8	4.5	2.6	2.7	3.0	2.2	0.8
Net Position (Bn):	**2.8**	3.6	1.5	0.8	0.7	1.4	0.4	0.8	0.6	0.8
Op. Revenue (MM):	254	683	267	220	222	137	217	179	208	153
NOI (MM):	152	244	39	10	46	43	60	67	48	117
NOI / Op. Rev.:	**59.6%**	35.8%	14.6%	4.5%	20.6%	31.3%	27.8%	37.4%	23.0%	76.6%

- **CalHFA's Strong Net Position is driven by:**
  - High levels of cash and investments
  - Reduction of debt outstanding
- **TBA sales and minimal debt contribute to a high operating margin for CalHFA**
  - Restarting on balance sheet lending will provide stable annuitized income
- **HFA balance sheets and revenue streams do vary from state-to-state**
  - Multifamily (Spread, Conduit Fees) vs. Single Family (Spread, TBA Sales, Servicing)
  - Level of state support

1. *Idaho Housing Finance Association has a "A+" rating from Fitch.*

Market Update

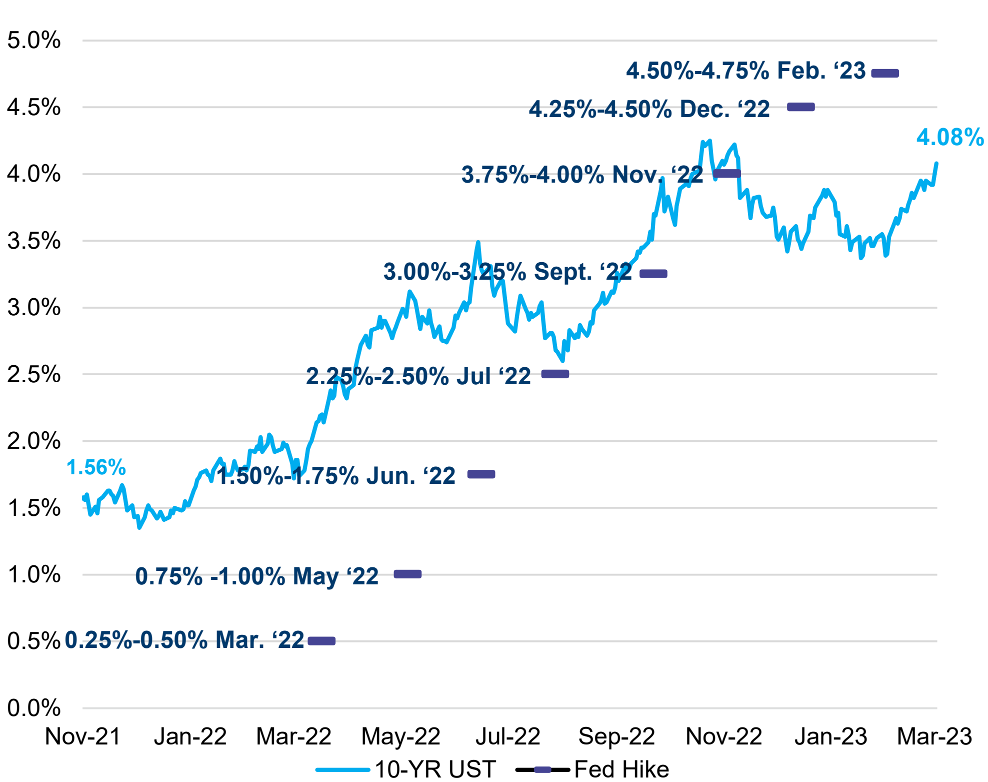
Treasuries, TBA and Municipal Bonds

Treasury rates increased with the Fed Fund Rate hikes

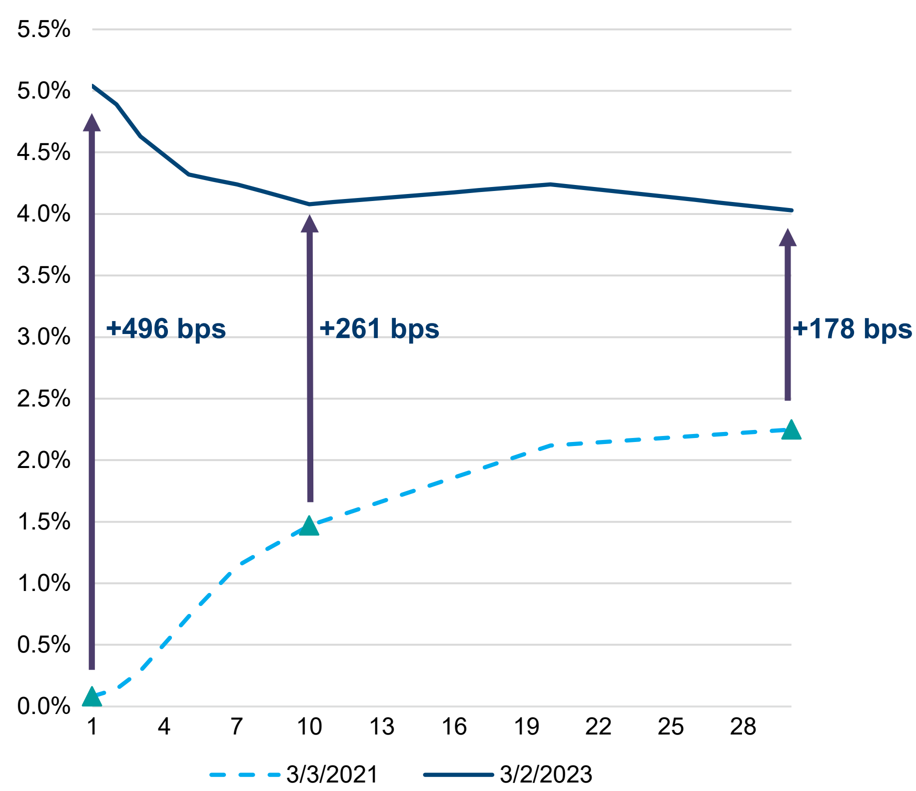
Takeaways

- Fed Funds Rate increased 450 bps from the prior year
- At least 3 additional Fed Hikes expected in 2023
- Terminal Fed Funds Rate expected to be 5.40%
- The Fed's actions have increased Treasury rates by an avg. 264 bps

10-YR UST generally increased with the Fed Rate Hikes



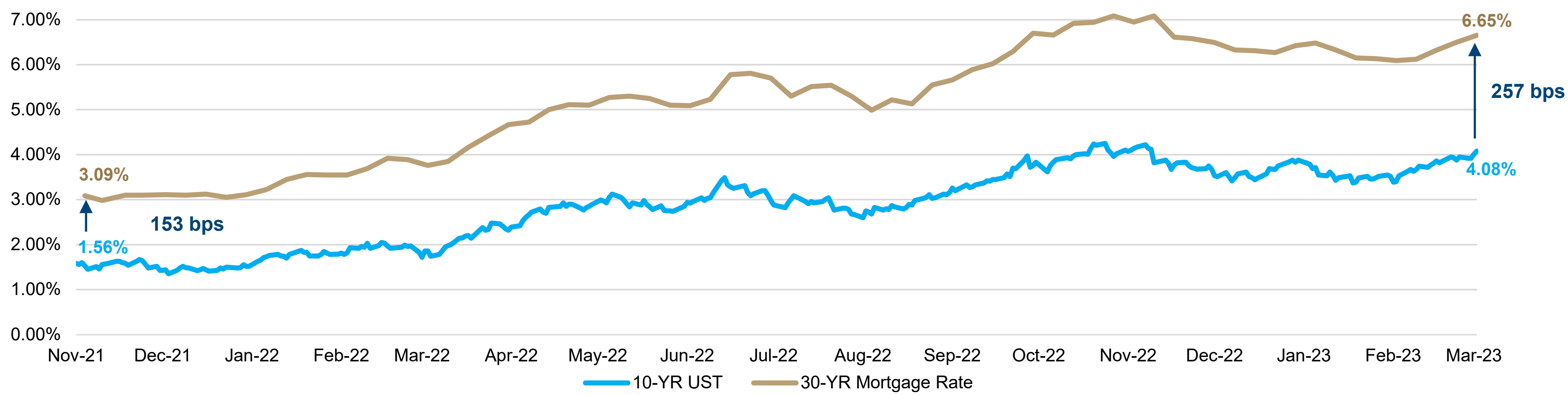
Inversion of the UST Yield Curve (Year-over-Year)



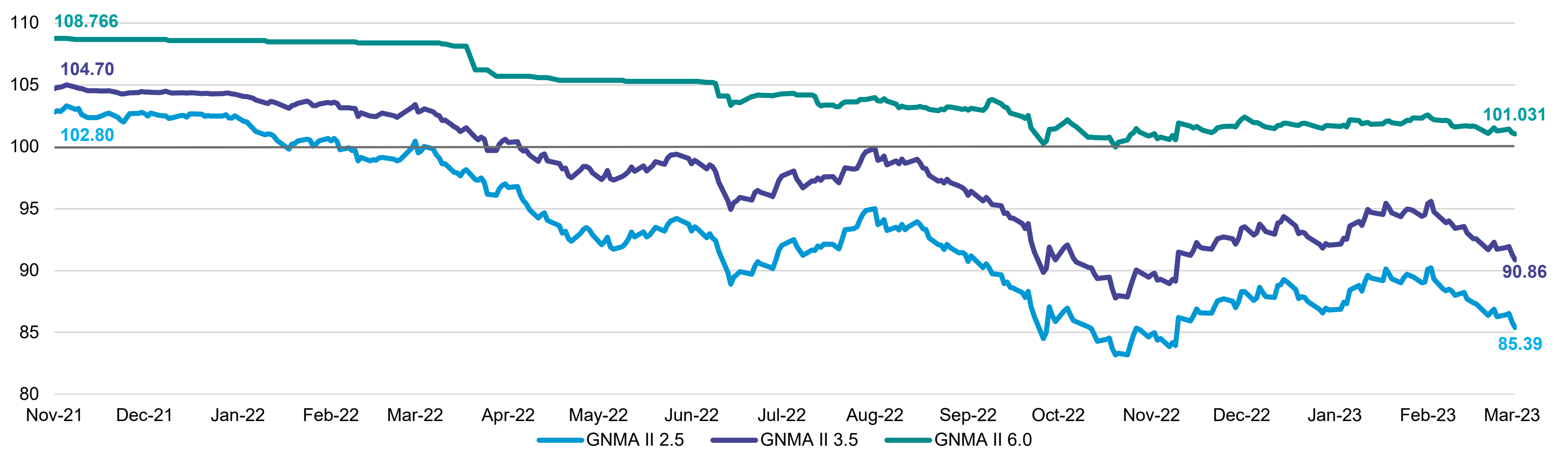
Source: U.S. Department of the Treasury and Barclays Live.

Mortgage rates rose along with TBA Market underperformance

The spread of the National Mortgage Rate increased over 10-YR UST (Nov-21 to Mar-23)



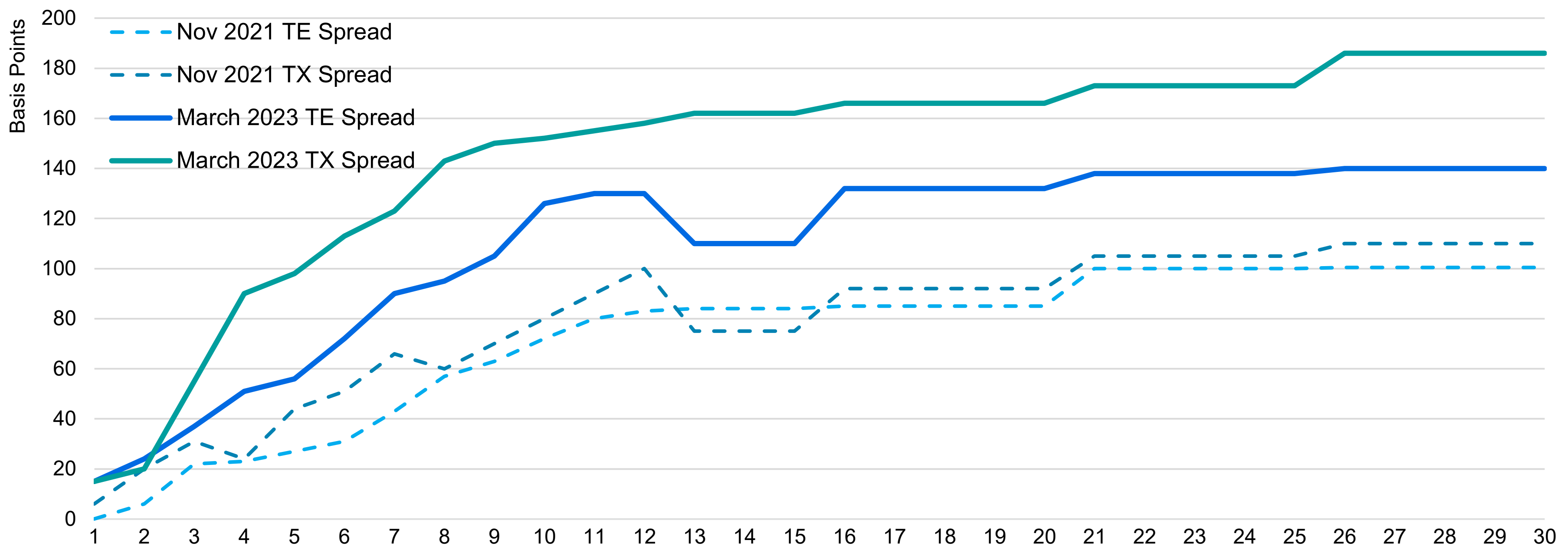
TBA Premiums declined as Treasury rates sold-off (Nov-21 to Mar-23)



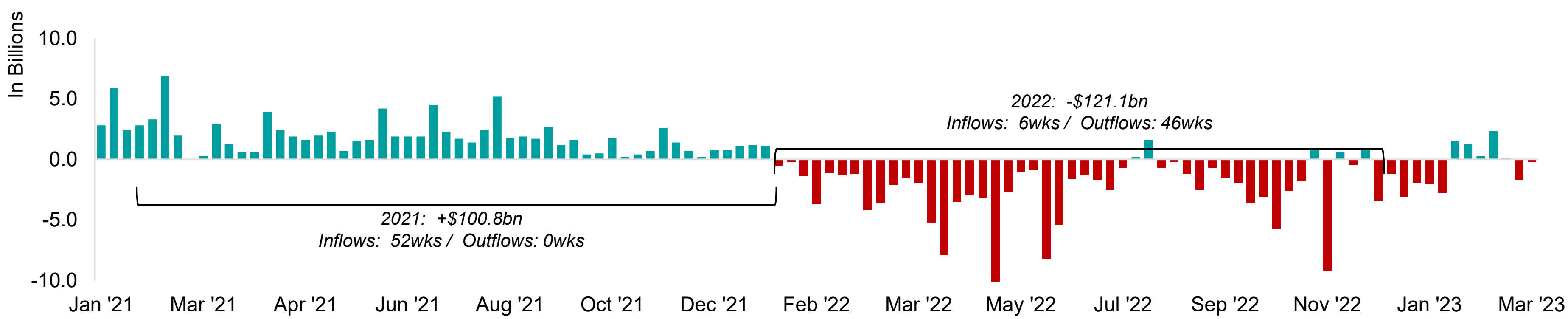
Sources: Barclays Live and Federal Reserve Bank of St. Louis.

Tax-exempt (MMD) rates outperformed relative to Treasuries despite Muni Bond Fund outflows in 2022

Tax-exempt Housing "AAA" Spreads are lower than Taxable Housing "AAA" Spreads



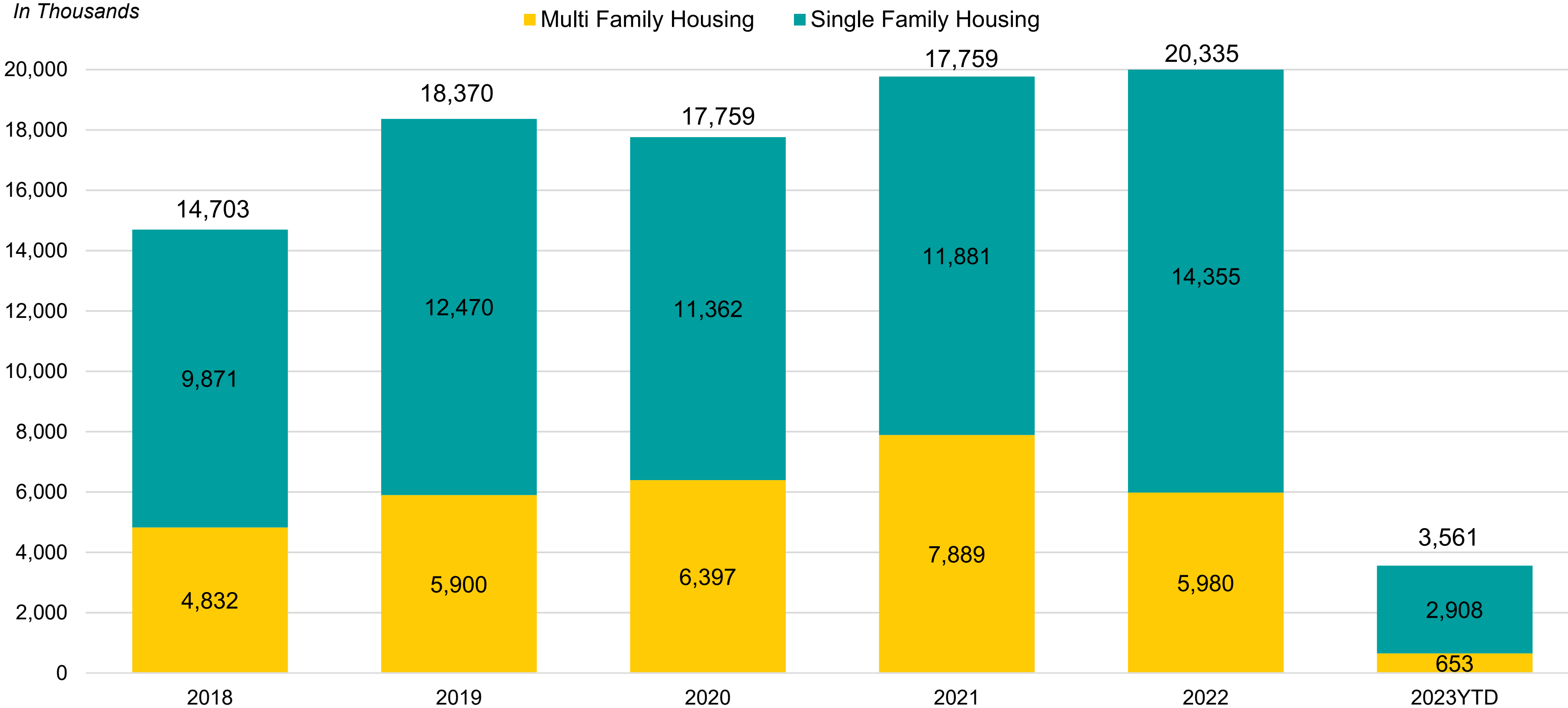
Municipal Bond Funds experienced significant outflows in 2022



Sources: U.S. Department of the Treasury, Refinitiv.

Municipal Housing Bond issuance increased despite the rise in rates

In the last five years, HFAs issuance was at a record high in 2022



Takeaways

- In 2022, single family production was down, and multifamily production remained relatively flat
- HFAs utilized TBA in 2020/2021 with the Fed's support, but pivoted to bonds in 2022 when support faded
- Access to the TBA, CMO and Bond markets enable HFAs to fund mortgage production in a variety of market environments

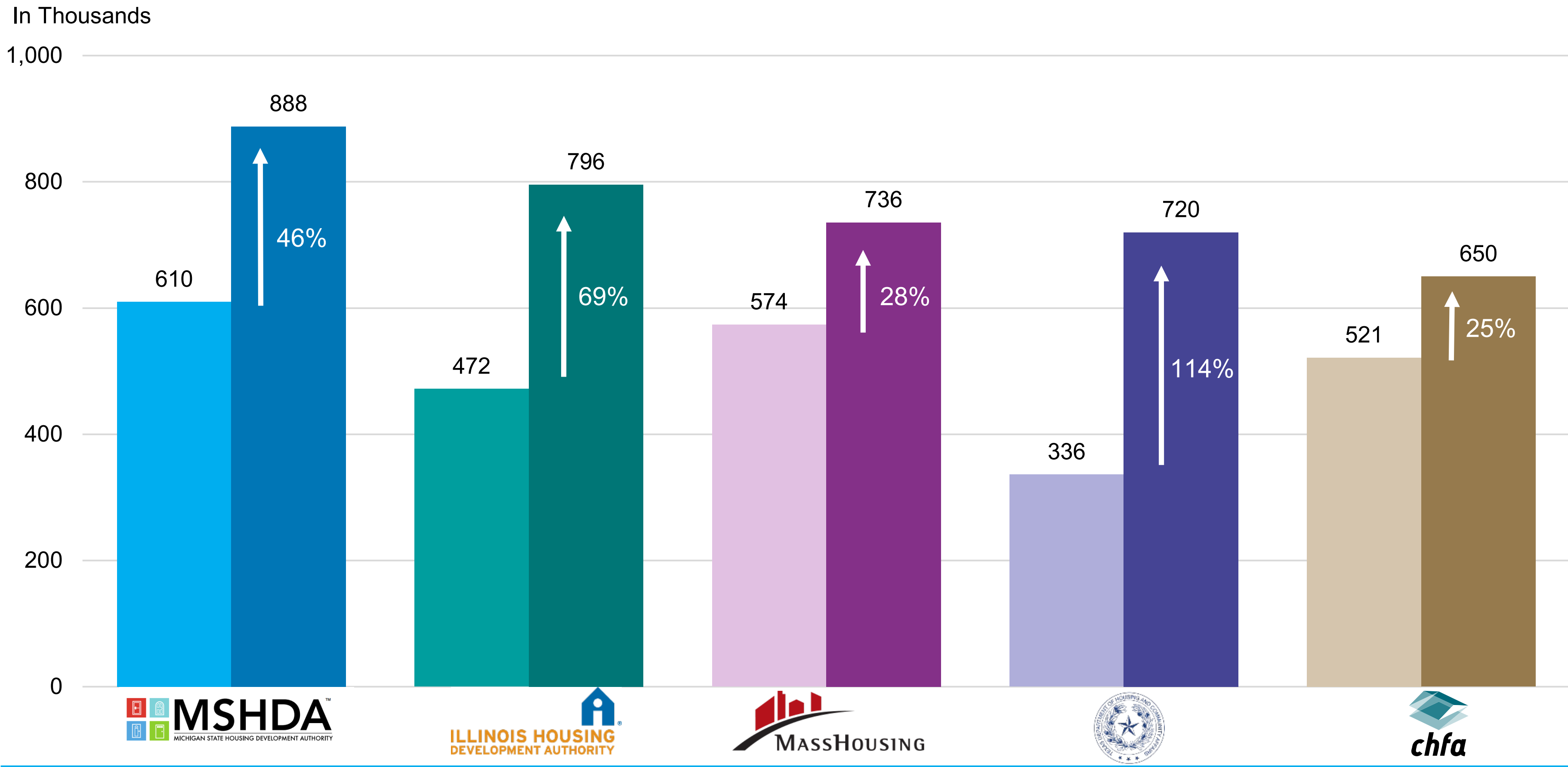
Source: Refinitiv.

Five HFAs that increased bond production by at least 25% in 2022

Takeaways

- For example, Illinois, Massachusetts and Colorado diverted TBA production into taxable bonds as the TBA market underperformed
- Michigan and Texas attracted borrowers through competitive mortgage rates and down payment assistance products by leveraging the relatively low cost of tax-exempt bonds

HFA Issuances in 2021 and 2022



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CalHFA is planning to re-enter the bond markets starting in April 2023

Multifamily Initiative

- Bond transaction par size will be approx. $100MM
- Finance 7 multifamily permanent loans
- "Sustainability Bonds" ESG-Label via S&P SPO
- Issued from the new multifamily indenture
- Pricing in April 2023
- Closing in May 2023

Single Family Initiative

- In process of creating a new single family indenture
- Flexible for issuing mortgage revenue bonds and pass-through executions
- Finance the acquisition of the Agency's MBS from Lakeview, its servicing partner
- Execution timing is market dependent

Questions

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