

**THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**

**March 26, 2008**

**CONSIDERATION AND APPROVAL OF THE TRANSFER OF A PORTION OF ORRP MIXED INCOME POOL AND EXTRA CREDIT TEACHER PROGRAM POOL RESERVATIONS TO THE CALHFA SFH PROGRAM POOL FOR THE PURPOSE OF ADMINISTERING A FORECLOSURE (REO) FIRST-TIME HOMEBUYER PROGRAM**

**ACTION:** Consideration and Approval of the transfer of a portion of the Qualified Residential Rental Program Mixed Income Pool and the Extra Credit Teacher Program Pool Reservations to the CalHFA Single Family Housing Program Pool for the purpose of administering a Foreclosure REO (*Real Estate Owned taken back by lender*) First-time Homebuyer Program.

**BACKGROUND:** Without action, foreclosures brought on by the current mortgage crisis will bring the number of empty residences in California to a staggering level as early as summer 2008. This situation has already resulted in dramatically reduced home values and has the potential to bring blight and economic stress to communities all across the State, resulting in serious revenue loss to not only local governments but the State general fund. Ironically, these dramatically reduced prices have increased the number of homes that qualify as “affordable” in the State.

Currently, CDLAC has identified \$360 million of allocation for CalHFA for the 2008 year. If CalHFA runs a “normal” statewide program with leveraging through taxable financing and recycling along with the sale of tax-exempt bonds they would achieve lending of approximately \$1.2 billion. This is \$300 million less than the lending that the Agency completed in 2007 and \$600 million less than 2006 (*CalHFA received surplus carryforward allocation in 2007 & 2006*). If CalHFA uses \$200 million of their \$360 million allocation for the REO program, assuming the financing mechanisms that they designed have 100% tax-exempt financing, CalHFA would only be left with \$160 million to leverage into a statewide program. This would totally change the role that CalHFA has played in the marketplace in California of a first-time homebuyer affordable lender. CalHFA would be out of business within a couple of months and lose the lender relationships that would have to be started all over again when they next receive allocation. Further, while CalHFA believes the REO program is a good program, they do not believe that their primary program that serves a statewide first-time homebuyer customer base should be traded off for the benefits that this program can achieve in certain hard hit targeted areas.

**DISCUSSION:** The Foreclosure REO Program would require an award of additional tax-exempt bond allocation for CalHFA. Bonds issued under this new authority will be used solely to fund loans to first-time homebuyers for the purpose of purchasing properties owned by financial institutions (i.e., REO properties) in certain areas of the state with significant numbers of REOs. In addition, to make these properties more

affordable, financial institutions would be required to sell these homes at reduced prices. By making these properties more affordable, banks that are subject to the federal Community Reinvestment Act (CRA) may be eligible for CRA credits. The combination of discounted purchase prices and below market interest rate loans would result in a tremendous increase in housing affordability in these communities.

The Foreclosure REO Program is designed to assist in the economic revitalization of communities' hard-hit by foreclosure activity. The program contemplates the identification of a limited number of specific communities around the state. The details of the REO program are still being worked out. The program would be available to all financial institutions who own REO properties in the targeted areas. Who participates in the program will depend on the type of discounts the financial institutions are willing to provide and other types of financial concessions.

**AWARD OF ALLOCATION:** The program funding target is \$200 million and at an average loan amount in the range of \$225,000 to \$250,000 the total number of borrowers assisted is estimated to be 800 to 900 individuals. The \$250,000 average loan amount was derived from data on CalHFA's current average loan amount. In addition, it is based on the average loan amount of sub prime loans in California reported by First American Loan Performance. If financial institutions offer significantly discounted prices for REO properties in the program, the average loan amount could fall below this projection, increasing the number of loans delivered in this program.

CalHFA would offer a custom loan product with special terms including lower interest rates and higher loan-to-value (LTV) ratios than currently offered in the market to take advantage of depressed home prices to make "want-to-be-homebuyers" into first-time homeowners. Combined with Proposition 46 and Proposition 1C funds the loans would provide 100% financing with the inclusion of down payment assistance. The Foreclosure REO Program has all the income and sales price limits of the usual CalHFA customer base, including the 40% @80 AMI required by CDLAC. If the REO program loans are combined with loans generated from CalHFA's core programs, CalHFA will manage the programs together to meet the 40% @80 AMI requirement.

The \$200 million Foreclosure REO Program bond allocation would be blended into the bonds sold for the CalHFA statewide program, the financial institutions would charge a higher rate of interest for the REO program given that they would have to identify in the official statement that these bonds are issued solely for the purchase of REO properties in targeted economically impacted areas. CalHFA intends to issue bonds for this program under their large parity indenture, the Home Mortgage Revenue Bond Indenture, which is used to finance loans to first-time homebuyers. CalHFA initially plans to issue bonds with existing tax-exempt issuance authority to finance REO Program loans as well as loans originating from other programs of the Agency as loans originate and are purchased by the Agency overtime. CalHFA anticipates that bonds may be issued as soon as July to finance the purchase of the first Foreclosure REO Program Loans.

**RECOMMENDATION:** Approve the transfer of \$90 million in tax-exempt bond allocation from the Qualified Residential Rental Program Mixed Income Pool, and \$110 million from the Extra Credit Teacher Program Pool to the CalHFA Single Family Housing Foreclosure REO Program. CalHFA will utilize existing allocation to begin the Foreclosure REO Program in April 2008. The actual award of allocation is requested in carryforward allocation to be awarded in December 2008.

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