

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
December 15, 2010
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
SINGLE FAMILY HOUSING BOND PROGRAM

Prepared by: Sarah Lester

Applicant: California Housing Finance Agency

Contact Information:

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Allocation Amount Requested: \$225,000,000

Participating Jurisdictions: Statewide

Program Financing Information:

Proposed Issuance Date: 2012-2013
Bond Counsel: Hawkins, Delafield & Wood LLP
Underwriter: JP Morgan / Bank of America Merrill Lynch (co-seniors)
Credit Enhancement Provider: Ginnie Mae (Bank of America [master servicer])
Private Placement Purchaser: Not Applicable
TEFRA Hearing: January 20, 2010

Allocation Information:

Program Status: Existing Program

Type of housing units to be assisted/average mortgage amount:

New construction units: 414 units (36%) with an average mortgage amount of \$200,867
Existing resale units: 725 units (64%) with an average mortgage amount of \$195,275
Rehabilitation units: 0 units (0%) with an average mortgage amount of \$000,000
Total units: 1,139 units with and average mortgage amount of \$197,308

The above numbers of units are: x Estimates
 Actual requirements imposed by the Issuer

Past Performance:

Due to the many challenges faced by State and local finance agencies since the collapse of the subprime lending market, the applicant states that it had no option but to suspend all of its lending programs. The Applicant indicates that with the municipal housing bond market broken, without a warehouse line to hold purchased loans and with today's low interest rates, it is extremely difficult to finance loans to first-time homebuyers at a competitive rate with new fixed rate bonds. Therefore, the applicant was unable to meet the 2009 minimum performance requirement that at least **40%** of the program participants are lower-income households.

The application indicates the applicant expects to meet the 2010 minimum performance requirement that at least **40%** of program participants will be lower-income households.

Recommendation:

Staff recommends that the Committee approve an amount of \$225,000,000 in 2010 tax-exempt bond allocation to the

California Housing Finance Agency for the Single Family Housing Bond Program on a carryforward basis.

DESCRIPTION OF PROPOSED PROGRAM:

● ***Population to be served by the proposed Program (family size, income levels, etc.):***

According to the Applicant, based on 2009 data, CalHFA expects to serve low-and moderate-income families of all sizes and ethnic backgrounds. The Agency projects that 26% of all loans will be to single-person households; 19% will be two person households; 22% will be three person households and 33% will be four or more person households. CalHFA also expects that 32% of the homebuyers will be white; 8% black; 11% Asian; 37% Hispanic; and the remaining 12% will be of other or unknown ethnic backgrounds. CalHFA anticipates 14% of all prospective homebuyers to have an income less than 50% of Applicable Median Income (AMI) (as defined by CDLAC); 51% with incomes between 51 and 80% of AMI; 24% with incomes between 81 to 100% of AMI; and 11% over 100% of AMI.

● ***Housing stock to be purchased (types, unit sizes, etc):***

According to the Applicant, the housing stock to be purchased will consist of either newly constructed or existing single family residences, including condominiums and attached planned unit developments as well as single family detached. The average home is expected to have approximately 1,430 square feet; 2.9 bedrooms and 1.9 baths. The anticipated average sales price will be approximately \$236,000. Of the homes CalHFA anticipates to finance, 37% will be new construction and the remaining 63% will be existing resale.

● ***Specific reservations of bond proceeds such as low-income targeting, new construction, etc.***

The program will reserve 20% of the allocation for IRS-designated target areas. According to the Applicant, at a minimum, 40% of the program participants it expects to assist in 2011 will be households with incomes below 80% of the area median income. This satisfies the Minimum Requirement for Single-Family Housing Programs contained in the CDLAC Procedures."

● ***Program interest rates, downpayment requirements, and other fees:***

Interest Rates: The Agency continues to monitor market rates and track FannieMae 60-day yield for 30 year fixed rate loans on a daily basis. Interest rates for our new Cal 30 conventional loan program can change daily. Lenders have the option to lock the interest rate after the loan is conditionally approved by the Agency. According to the Applicant, this is a new process for the lenders where in the past, they allowed them to lock the rate at loan reservation. The rates are posted on the Homownership website. The Applicant states that the current interest rate for the FHA program is 4.00%.

Fees: Lenders are permitted to recover out-of-pocket expenses for billed expenses farom thirty party sources, provided it is customary to pass through these in the origination of a non-CalHFA loan. In addition to the allowed origination fee, Lenders are permitted to charge, the borrower or the seller, processing fees such as packaging or processing, document preparation and/or underwriting fees etc., to a maximum of \$550 (\$350 for processing, unerwriting and other miscellaneous fees, plus \$200 for document preparation). In addition to the first mortgage fees, according to the Applicant, the lenders are permitted to charge \$250 to process each subordinate mortgage.

Downpayment Requirements: The Applicant states for the FHA loan program, the borrower must provide 3.5% of the downpayment which can be from the borrower's own funds, or from an acceptable source of gift or downpayment assistance programs. If a borrower choses to use the Agency's CHDAP for downpayment or closing costs, a 1% downpayment would be required with the borrower's own funds.

● ***Other homebuyers assistance programs offered by participating jurisdiciton(s):***

None indicated.

DESCRIPTION OF PROPOSED PROGRAM: (contd.)

• ***Any other features unique to the proposed Program:***

According to the Applicant, CalHFA has developed and implemented a new 30 year loan program (Cal30 Conventional) using a master servicer (Bank of America). This loan program is based on the Agency taking forward commitments and delivering funded and purchased loans to the Fannie Mae cash window. The Applicant states that overtime the Agency intends to move towards an MBS business model that will provide the Agency with more options including the purchase of MBS with mortgage revenue bond proceeds. In addition, the Agency intends to offer a FHA program under the same structure, guidelines and pricing, according to the Applicant.

PURCHASE PRICE INFORMATION:

The proposed maximum limits are: Maximum purchase prices will vary from county to county, and are based on the IRS safe harbor limitations as published.

Expected average sales price of the estimated units to be assisted:

New units	\$267,622
Existing units	\$214,097
Rehabilitated units	\$0

MAXIMUM INCOME LIMITATIONS:

Maximum income limits will vary from County to County. The Applicant states that IRS Revenue Procedure 2010-23 provides an issuer to use the 2009 published income limits. According to the Applicant, it along with Bond Counsel approval, has chosen to use the 2009 published income limits for 2010 for the main MRB program. The Applicant further states that for the Cal30 loan program, the Applicant elected to use a blended limit which consists of the lower of: Fannie Mae MCM High cost areas, HCD moderate income limits, or Tax law limits.

Area median income on which maximum program limits are based:

The higher of the 2009 Statewide median income or the County median income as published by HUD, and adjusted for family size by the California Department of Housing and Community Development.

Applicable standard that defines the area median income:

HUD statewide median HUD county MSA median
 Local median as determined by a special study

Percent of bond proceeds reserved for IRS-designated target areas in the jurisdiction(s): 20%

Proposed maximum income limits:

<u>Household Size</u>	<u>Non-Target Area</u>		<u>Target Area</u>	
	<u>New Unit</u>	<u>Existing Unit</u>	<u>New Unit</u>	<u>Existing Unit</u>
1-2 persons				
3+ persons				

DESCRIPTION OF PUBLIC BENEFITS

Past Program Performance:

<u>Year</u>	<u>Amount of Allocation Awarded</u>	<u>Amount of Allocation Used</u>	<u>Number of Loan Originated (1)</u>	<u>Status of Outstanding Bond</u>
2007	\$458,257,154	\$152,000,283	5,455	\$306,256,871
2008	\$1,328,361,228	\$0	4,582	\$1,305,471,228
2009	\$225,000,000	\$0	0	\$225,000,000

(1) These loan totals are all first mortgages- new construction and resale for the calendar year. These loans are originated with a combination of new allocation as well as loans originated with refunding bond proceeds, taxable bond proceeds and those loan prepayments directly recycled into new loans.

(2) State and local housing finance agencies have faced many challenges since the collapse of the sub-prime lending market. CalHFA had no option but to suspend all of its lending programs. With the municipal housing bond market broken, without a warehouse line to hold purchased loans and with today's low interest rates, it is extremely difficult to finance loans to first-time homebuyers at a competitive lending rate with new fixed rate bonds.

The 2007 remaining allocation of \$316,256,871 and the remaining special allocation authorized by HR 3221 during calendar year 2008 (currently \$854,471,228) is set to expire on December 31, 2010. The Agency plans to use up to \$100 million of the remaining 2007 allocation in connection with the first release of bonds under the Single Family New Issue Bond Program in December 2010. The Agency has requested to transfer \$176,542,246 of the remaining HR 3221 allocation for use with our Multifamily Program and will issue bonds in October and December 2010 using that bond authority. It is unlikely that the Agency will be able to utilize approximately \$216 million of 2007 allocation and approximately \$677 million of HR 3221 allocation by the current expiration date at the end of this year. We understand that Congress is considering extending the sunset of HR 3221 private activity volume cap for one year, but nothing is expected to be resolved under later this year. The Agency has been actively working with our national organization to lobby for this extension. The Agency would expect to use the majority of the HR 3221 allocation if Congress were to extend the sunset of this allocation.

Pursuant to CDLAC Procedures Section 18.I.D.1.,2., the Applicant

1. Has demonstrated that all proceeds from a bond issuance in the calendar year three years prior to the current year (other than minor amounts not to exceed \$1 million) have been used to finance loans; and
2. Certifies that any remaining bond proceeds from an Allocation up to two years prior to the current year will be used either:
 - a. Before the use of new Allocation and/or;
 - b. In conjunction with new Allocation in satisfying federal requirements (32-year rule) for such prior funds.