

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
December 11, 2013
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: \$200,000,000

Participating Jurisdictions: Statewide

Program Financing Information:

Proposed Issuance Date: 2014-2015
Bond Counsel: Hawkins, Delafield & Wood LLP
Underwriter: California Housing Finance Agency
Credit Enhancement Provider: California Housing Finance Agency
Private Placement Purchaser: Not Applicable
TEFRA Hearing: November 12, 2013

Allocation Information:

Program Status:

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

New construction units: 198 units (20%) with an average mortgage amount of \$235,000
Existing resale units: 793 units (80%) with an average mortgage amount of \$225,000
Rehabilitation units: 0 units (0%) with an average mortgage amount of \$000,000
Total units: 991 units with and average mortgage amount of \$226,998

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 fixed rate bonds. The Applicant did not apply for its 2012 single family housing fairshare.

The application indicates the applicant expects to meet the 2013 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 \$200,000,000 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.):***

CalHFA expects to serve low-and moderate-income families of all sizes and ethnic backgrounds. The Agency projects that 20% of all loans will be to single-person households; 20% will be two person households; 22% will be three person households and 38% will be four or more person households. CalHFA also expects that 35% of the homebuyers will be white; 8% black; 5% Asian; 45% Hispanic; and the remaining 7% 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); 43% with incomes between 51% and 80% of AMI; 28% with incomes between 81% to 100% of AMI; and 16% 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 1,550 square feet; 3.2 bedrooms and 2 baths. The anticipated average sales price will be approximately \$204,500. Of the homes CalHFA anticipates to finance, 20% will be new construction and the remaining 80% 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 2013 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 Committee's Regulations.

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

Interest Rates: According to the application, CalHFA publishes the mortgage rate for each product on the CalHFA website. The objective in setting rates is to be "at market" or slightly above market. The Applicant states that the current interest rate for the CalPLUS program is 4.25% and 3.75% for the CalHFA FHA program.

Fees: Lenders are permitted to recover out-of-pocket expenses for billed expenses from third 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 chooses to use the Agency's CHDAP for downpayment or closing costs, a 1% downpayment would be required with the borrower's own funds.

The CalPLUS mortgage rate is set to be above the market rates for FHA 30 year mortgages, allowing CalHFA to sell the CalPLUS at a premium price due to the higher mortgage rate. The premium is used to finance the "Zero Interest Program" ("ZIP") second mortgage. The borrower will pay a higher rate in exchange for receiving the loan which will provide the down payment. The ZIP has a 0% interest rate and cannot exceed 3.5% of the first mortgage amount.

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

None indicated.

DESCRIPTION OF PROPOSED PROGRAM: (contd.)

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

Non first-time homebuyers

According to the application, depending upon the ultimate funding source, if taxable financing is used, there is no federal regulation requiring tax law compliance. A taxably financed mortgage could be use for a refinance program, or a targeted non-first-time homebuyer program.

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	\$243,500
Existing units	\$233,160
Rehabilitated units	\$0

MAXIMUM INCOME LIMITATIONS:

Maximum income limits will vary from County to County.

Area median income on which maximum program limits are based:

The higher of the 2013 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%

Past Program Performance:

<u>Year</u>	<u>Amount of Allocation Awarded</u>	<u>Amount of Allocation Used</u>	<u>Number of Loan Originated</u>	<u>Status of Outstanding Bond</u>
2010	\$225,000,000	\$0	0	\$225,000,000
2011	\$250,000,000	\$0	0	\$250,000,000
2012	\$0	\$0	0	\$0

Mortgage Backed Securities loans were originated from the FHA Loan Program. This program was effective 2010 and ended on October 31, 2011. The loans originated in 2012 were the loans that remained in the pipeline.

The 2010 MRB allocation in the amount of \$225,000,000 has not been used and will expire at the end of 2013. The Agency has submitted an application to CDLAC to be considered at the December 11, 2013 CDLAC meeting to convert \$180,000,000 of this amount to MCCs. The conversion amount is equal to 80% of the allocation amount. The Agency plans to let the remaining 2010 allocation amount of \$45,000,000 revert back to CDLAC.

Pursuant to Section 5269 of the CDLAC Regulations, the Applicant has:

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.