CALIFORNIA STATE AUDITOR

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FACT SHEET

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The California State Auditor released the following report today:

California Housing Finance Agency

Most Indicators Point to Continued Solvency Despite Its Financial Difficulties Created, in Part, by Its Past Decisions

BACKGROUND

Overseen by a 14-member board, the California Housing Finance Agency (CalHFA) uses the proceeds from the sale of bonds to fund low-interest-rate home loans for single-family and multifamily housing for low- and moderate-income persons and families. CalHFA repays the bonds that it issues with revenues generated through borrowers' repayment of mortgage loans and uses the remaining funds for its operating costs and other programs that promote affordable housing for low-income Californians. Unless a loan is otherwise insured by the federal government, CalHFA carries the risk if a borrower stops paying. With plummeting home values and high levels of unemployment, CalHFA has experienced increased delinquencies in mortgage payments from its borrowers. Although profitable for many years, CalHFA suffered losses of $146 million and $189 million in fiscal years 2008–09 and 2009–10, respectively. Because CalHFA is self-sustaining, its financial problems will not affect the State's General Fund.

KEY FINDINGS

Our review of CalHFA's financial position, including decisions and actions that contributed to its current financial condition and its future solvency, revealed the following:

- Although it will continue to face significant risks, such as its high level of variable-rate debt, CalHFA's major housing programs and its operating fund should remain solvent under most foreseeable circumstances. However, the fund that provides insurance on its mortgages will become insolvent by summer 2011.
- Past decisions by CalHFA, such as its use of variable-rate bonds and launching new mortgage products in 2005 and 2006, contributed to its current financial difficulties.
    - ✓ One of the biggest threats to CalHFA's solvency is the amount of variable-rate bond debt it holds—as of June 30, 2010 it accounted for $4.5 billion or 61 percent of its total bond debt.
    - ✓ Although CalHFA's new mortgage products—a 35-year and a 40-year loan launched in 2005 and 2006—were easier for borrowers to qualify for, the delinquency rates for borrowers with these loans are presently twice as high as CalHFA's traditional mortgages.
    - ✓ The decision to implement what turned out to be risky loan products was never brought before the board for a vote because CalHFA's board delegates these decisions to staff.
- The composition of the CalHFA board specified in statute does not appear to require certain financial expertise necessary to provide adequate guidance to CalHFA on complex financial matters.

KEY RECOMMENDATIONS

We recommended that the Legislature consider amending statutes regarding the composition of the CalHFA board so that appointees include individuals that have knowledge of housing finance agencies, single-family mortgage lending, bonds and related instruments, and risk management. We also recommended that CalHFA's board provide better oversight of CalHFA including writing policies for approving new debt-issuance strategies or mortgage products prior to implementation, and that it restrict staff's actions regarding debt strategies and mortgage products to those specified in its annual delegations, approved business plans, and resolutions.