

2003

Annual Report 2002-2003: Growing Affordability

California Housing Finance Agency

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2002/2003

CALIFORNIA HOUSING FINANCE AGENCY
ANNUAL REPORT



GROWING AFFORDABILITY



California Housing

Finance Agency's mission

is to finance below-

market rate loans to create

safe, decent, and affordable

rental housing and to

assist first-time homebuyers

in achieving the dream

of homeownership.

2002 — 2003

CalHFA MAJOR ACCOMPLISHMENTS

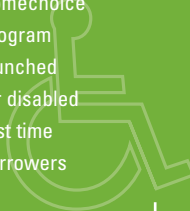
August 2002

For the first time, the amount of Agency variable rate bonds exceeded our fixed-rate bonds



October 2002

Homechoice Program launched for disabled first time borrowers

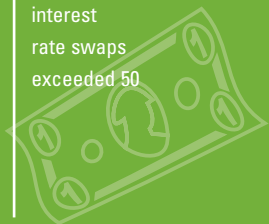


December 2002

Extra Credit Teacher Home Purchase Program expanded

July 2002

Number of interest rate swaps exceeded 50



September 2002

Authorized \$95 million in bonds for the Extra Credit Teacher Home Purchase Program



November 2002

Voters approved Proposition 46



Reserve period extended for construction

TS 2003



February 2003

Renewed
School Facility
Fee Down
Payment
Assistance
Program
through
Proposition 46
funding

April 2003

Reached
120,000 first
home
mortgages
goal



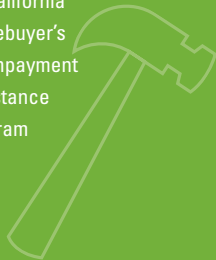
June 2003

Achieved
\$100 million
Housing
Enabled
by Local
Partnerships
Program
goal

Exceeded
\$12 billion in
total first
home
mortgage
loans

January 2003

\$50 million
in Proposition 46
funds available
for California
Homebuyer's
Downpayment
Assistance
Program



March 2003

GE Mortgage
Services
contract
completed



May 2003

Reached
\$285 million
in multifamily
loan
commitments:
140% of goal

02/03 ANNUAL REPORT



Chairman and Executive Director's Message	2
Members of the Board	3
Senior Staff	4
Homeownership	6
Multifamily	8
Mortgage Insurance Services	10
Special Housing	12
Financial Services	15
Support Services	16
CalHFA Staff	ibc

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Additional information is provided in the "Audited Financial Statements" and "Statistical Supplement" to the California Housing Finance Agency's 2002-2003 Annual Report

"CalHFA's
innovative five-year
Business Plan
has positioned
the Agency to
maximize
its financial
resources to address
California's
growing
affordable
housing needs."

*Phil Angelides
State Treasurer*

www.calhfa.ca.gov



Clark E. Wallace and
Theresa A. Parker

CHAIRMAN AND EXECUTIVE DIRECTOR'S MESSAGE

*A message
to the
affordable
housing
community
and our
bondholders*

During the 27 year history of the California Housing Finance Agency (CalHFA), there has never been a better year than Fiscal Year 2002-03 for "growing affordability". While the past year brought with it its share of economic woes, the housing industry was the "bumper crop" in an otherwise stagnant economy.

One of the primary factors leading to the high demand for housing was declining mortgage interest rates which dropped to a 45-year record low. That, combined with an increase in the number of homebuyer assistance programs for first-time homebuyers—like those provided by CalHFA—and a recognition that homeownership is a primary source of financial security, prompted more and more people to buy their first home. For CalHFA, significant growth also came in the Multifamily

Division, which experienced a 46% increase in activity over the prior year. Another key factor supporting affordable housing was the passage of Proposition 46—The Emergency Shelter Trust Fund Act, which was approved by voters in November 2002. The Act authorized \$335 million for CalHFA to develop and deliver high-potential affordable homeownership and rental housing programs.

CalHFA is also very pleased to report that its five-year business plan projects a 20% increase in activities, totaling \$12.5 billion in funding. In total, the Agency plans to lend more than \$6.8 billion to Californians to buy single-family homes. Mortgage Insurance Services' goal is \$3.5 billion in home mortgage insurance coverage, and the Multifamily Division projects \$3 billion for financ-

ing affordable multifamily rental units over the next five years.

As we look forward, CalHFA will continue taking advantage of its strengths as an overall source of affordable housing solutions—providing support for homeowner-ship, mortgage insurance and multifamily housing. Entering our 28th year, we continue to have a high level of confidence in our ability to deliver on our promises and sow the seeds for future growth, because growing affordable housing is our business.

Clark E. Wallace
Chairman of the Board

Theresa A. Parker
Executive Director



HOMEOWNERSHIP

CalHFA will
continue to pursue
partnerships
designed to
provide low-to-
moderate income
first-time homebuyers
with below-market
financing
in FY 2003-2004.

During Fiscal Year 2002-03, CalHFA's Homeownership Programs were keenly focused on growing affordability opportunities. In addition to developing and implementing a variety of programs funded through Proposition 46, the Homeownership Division tripled its outreach activities to the communities it serves by hosting and attending workshops and panel discussions with a wide variety of audiences and attending tradeshow and homebuyer fairs to promote CalHFA's affordable housing programs.

Achievements 2002-03

- Since its inception, the Agency has provided first-time homebuyers with 121,493 loans, totaling nearly \$12.1 billion.
- Met the Governor's challenge to generate \$1 billion of below-market interest rate loans to first-time homebuyers for the fourth straight year. This year's total was \$1.1 billion for 6,937 loans, a 7.6% increase over the prior year. Of the \$1.1 billion, 69% were resale (existing home) loans and 31% were for new construction.
- Increased the number of loans to low-income households to 59% of all CalHFA first-time homebuyer loans, up from 44% in the previous year (based on MRB income).
- Maintained services for minority customers, with 70% of all first mortgage loans being funded to ethnic borrowers.
- Provided downpayment assistance to 6,397 borrowers through CalHFA's programs.
- Purchased 3,619 first mortgages totaling \$722 million in CalHFA's high-cost coastal regions (18 counties from Marin to San Diego) that represent 69% of the state's population.

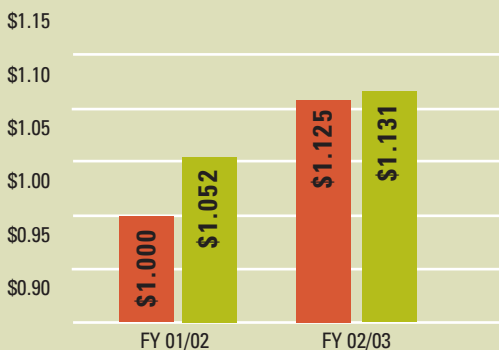
The CalHFA Housing Assistance Program (CHAP) originated 5,068 second mortgages totaling \$26 million behind the 6,937 CalHFA first mortgage loans, with a ratio of 76% CHAP seconds to CalHFA firsts. The program provides up to 100% of the financing needs for eligible low-to-moderate income first-time homebuyers.

The High Cost Area Home Purchase Assistance Program (HiCAP) reserved 608 first mortgage loans totaling \$156 million in the high-cost counties of Alameda, Contra Costa, San Francisco, San Mateo, Santa Clara and Sonoma. The program consists of a CalHFA below-market rate first mortgage loan, combined with a deferred-payment low interest rate second loan, up to \$25,000 for downpayment assistance.

CalHFA Growing Affordability

7.6% Increase in Loan Purchases from FY 01/02

\$ IN BILLIONS



■ FY GOAL

■ FY PURCHASED

The Self-Help Builder Assistance Program (SHBAP) sustained its annual production level, with the purchase of 111 permanent loans totaling \$13.7 million, with forward commitments to nonprofit self-help developers totaling \$13.3 million. In this program, families and individuals with limited financial resources achieve homeownership by contributing their "sweat equity" in lieu of a cash downpayment.

The Affordable Housing Partnership Program (AHPP) expanded the number of partners from 150 to nearly 200, including cities, counties, redevelopment agencies, housing authorities and non-profit housing organizations. Through June 30, 2003, the Agency had purchased 554 AHPP first loans totaling \$64 million, with localities providing \$10 million in downpayment assistance.

In January 2003, the **California Homebuyer's Downpayment Assistance Program (CHDAP)** resumed with funding approved by California voters as Proposition 46 in the November 2002 election. Since the resumption of the program, through June 30, 2003 CalHFA has received 1,499 loan reservations, totaling \$8.8 million for CHDAP loans. The program offers a deferred-payment junior loan to assist with downpayment and closing costs.

The Extra Credit Teacher Home Purchase Program (ECTP)—in its second year—made reservations for 340 second loans totaling \$2.5 million; of these, 215 loans for \$1.61 million had been purchased. The Agency started using Proposition 46 funds during the fiscal year. This program helps high priority schools attract and retain quality education professionals for the schools and students who need them the most.

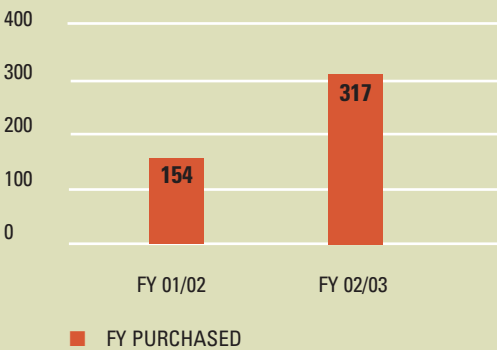
The School Facility Fee Down Payment Assistance Program, which was discontinued at the end of 2001, was re-funded with Proposition 46 funds in February 2003. The re-funded program provided 169 grants for downpayment assistance to buyers of newly constructed homes throughout California.

The Homeownership In Revitalization Areas Program (HIRAP)—also authorized by Proposition 46—was implemented, offering low income first-time homebuyers a deferred-payment junior loan which can be used for downpayment or closing costs for purchasing a home in a designated revitalization area. Non-profit homeownership counseling agencies began submitting applications to CalHFA to qualify to participate in the program.

A new program launched in October 2002, Home Choice, is a partnership program involving CalHFA,

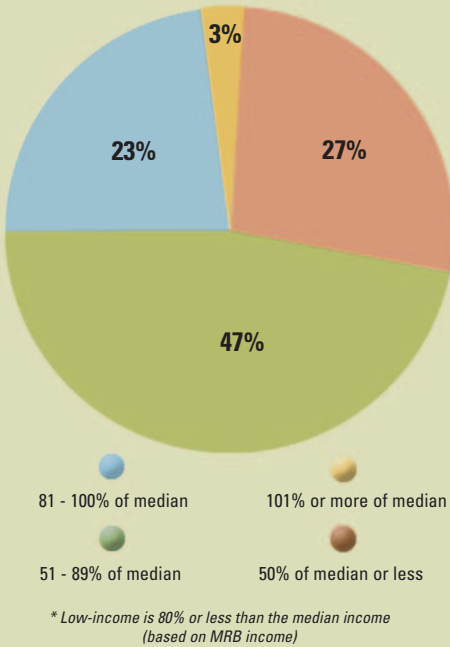
High Cost Area Home Purchase Assistance Program (HiCAP)

NUMBER OF LOANS



Low-Income Borrowers*

Represent 74% of all Loans Purchased in FY 02/03



Fannie Mae and Guild Mortgage that is designed to meet the needs of first-time homebuyers who have disabilities or have family members with disabilities living with them.

Growing Forward 2003-04

In our efforts to expand affordable housing opportunities in California, CalHFA will continue to support and introduce programs targeted to low-to-moderate income first-time homebuyers. Our goal for Fiscal Year 2003-04 is to increase first-time homebuyer loans to \$1.175 billion. Downpayment assistance will continue to be an important aspect of this plan and is projected to nearly double in the coming year to an estimated \$78 million.



MULTIFAMILY

***Providing
permanent
and direct
construction
financing
for new housing
developments
and preservation
of existing
rental housing***

The Multifamily Division's goal is to provide direct permanent and construction financing for new housing developments and finance the preservation of existing rental housing for very low and moderate income individuals and families. During the Fiscal Year 2002-03, the Division achieved 140% of its production goal by processing loan commitments totaling \$285 million for 2,609 units, representing an increase of 46% over the prior year. This significant accomplishment was due in part to the addition of key staff positions and the introduction of a variety of new programs.

Achievements 2002-03

- Provided a high degree of affordability for tenants via construction and preservation projects, with 38% of the units being rented to tenants earning 50% or less than the HUD median income, 59% to between 51-80% and 3% to over 80% of the median.
- Made loan commitments totaling \$285 million for the development of 32 projects and 2,609 rental units.
- Provided permanent financing of \$104.3 million for the development of 14 rental projects with 1,474 units, for approximately 3,000 residents.

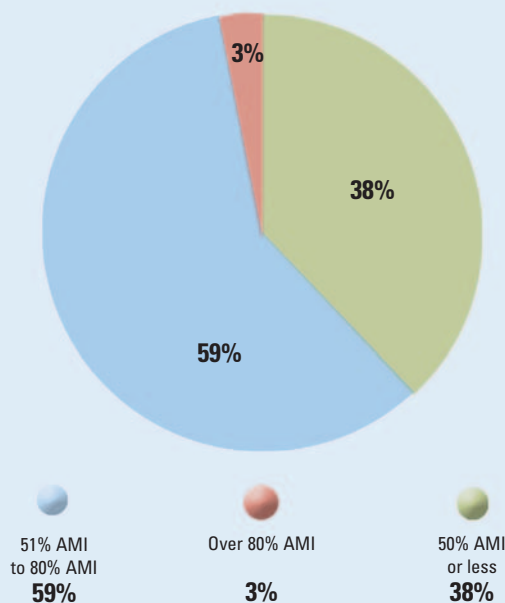
Achievements 2002-03, (continued)

- Introduced the Preservation Opportunity Program—authorized by Proposition 46—that offers much-needed short-term acquisition funds for preserving federally assisted projects at risk of losing their affordability status.
- Designed and implemented a competitively priced direct construction lending program that includes construction and permanent financing, which will lead to lower costs for affordable housing projects financed by the Agency.
- Finalized the Agency's Section 8 Portfolio Refinance Policy allowing existing assisted projects to be re-capitalized and preserved for an additional 55 years.
- Implemented an Earthquake Insurance Waiver Program that facilitates increased affordability and larger loan amounts through reduced operating expenses, while protecting the Agency's loan portfolio from seismic risk.
- Implemented a permanent financing program for HOPE VI projects, which builds replacement housing for older public housing projects, serving the needs of mixed income renters, from very low up to median income.

Growing Forward 2003-04

The Multifamily Division's five-year plan calls for loan commitments totaling \$2.2 billion, with \$478 million earmarked for the 2003-04 fiscal year. These funds will support the needs for construction/permanent financing, student housing, the Preservation Acquisition Program, the Housing Enabled by Local Partnerships Program (HELP) and other affordable rental housing programs.

**CalHFA Multifamily
Unit Affordability**
Commitments 2002/2003



MULTIFAMILY ASSET MANAGEMENT

The Asset Management Division is responsible for working with building owners and management agents to maintain rental housing that is well-operated, fiscally sound and a safe living environment for the tenants, while at the same time protecting CalHFA's real estate assets from loss.

Achievements 2002-03

- Completed 12 loan modifications, with each project either extending their regulatory period or adding more affordable units in exchange for a lower interest rate.
- Added 10 new projects, with CalHFA loans of \$58.4 million and 1,015 units to its management portfolio.

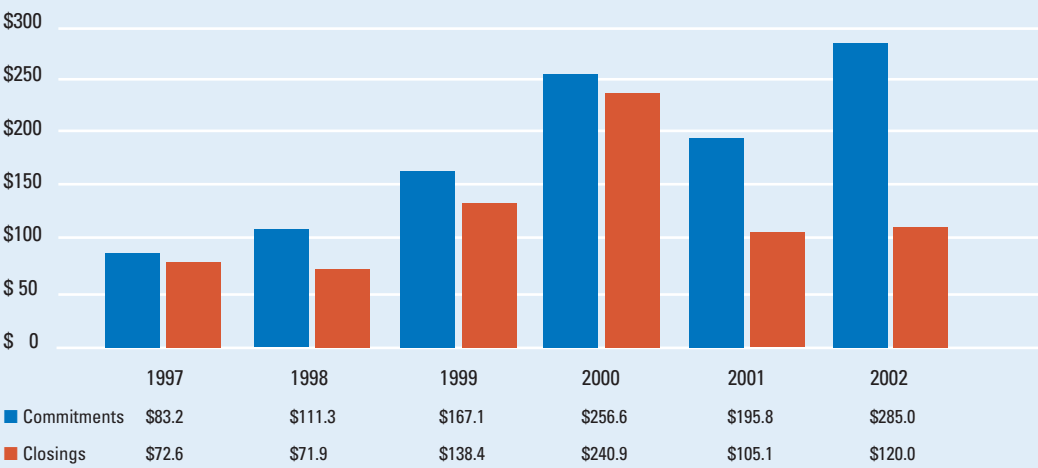
- Implemented new software system for processing Section 8 Housing Assistance Payments.
- Initiated efforts with HUD to restructure the Section 8 portfolio of loans.

Growing Forward 2003-04

Asset Management plans to install and integrate new automation solutions for monitoring the portfolio and for communicating electronically with its borrowers.

Multifamily Program Activity • FY's 1997 to 2002

IN MILLIONS







MORTGAGE INSURANCE

The Mortgage

Insurance Services

Division

enables

more

Californians

to buy a home

by providing

primary

mortgage

insurance to

hard-to-serve

borrowers at

favorable rates.

The Division has entered into relationships with government sponsored enterprises, mortgage bankers, lenders, local government agencies and non-profit affordable housing providers who are committed to expanding affordable housing opportunities.

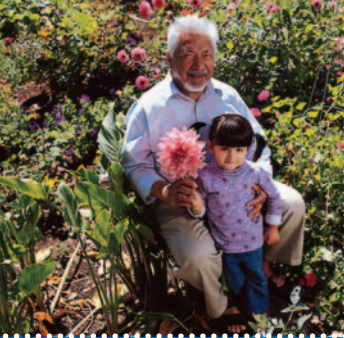
Fiscal Year 2002-03 represented the completion of the Division's restructuring effort that included program refinement, process improvements and the addition of new staff. The Agency entered into a strategic partnership with General Electric Mortgage Insurance Corporation (GEMICO)—a leading national mortgage insurer—for reinsurance and other administrative services with state-of-the-art mortgage insurance technology, and ready access to portfolio data necessary for product development and management reporting. Other anticipated benefits of this alliance include the expansion of our scale as a mortgage insurer. This change will lead to more efficient mortgage insurance growth opportunities for the Agency in the coming years.

Achievements 2002-03

- CalHFA insured 2,284 mortgages totaling \$489 million
- At year-end, 7,055 active mortgage insurance policies were in its portfolio, totaling \$1.2 billion

Growing Forward 2003-04

- Develop new products to utilize \$85 million in Proposition 46 funds to meet the needs of hard-to-serve borrowers
- Expand outreach activities among industry partners such as Realtors, builders, investors, government sponsored enterprises, localities and non-profit entities



SPECIAL HOUSING

A *about 3,700*
units will result
from the 28 HELP
loan commitments
which will be
leveraged with
over \$200 million
of other local,
state and
federal
resources.

This year marked the fifth anniversary of the Housing Enabled by Local Partnerships (HELP) Program, which provides affordable housing opportunities through program partnerships with local government entities. This widely successful program achieved the initial goal of \$100 million in allocated commitments over the past five fiscal years, with allocations awarded to 81 localities representing 96 active commitments that produced over 14,800 units of affordable housing.

CalHFA has plans to develop additional programs to partner with localities to finance neighborhood infill projects, small project development and leverage tax increment financing.



FINANCIAL SERVICES

The Financing and Fiscal Divisions administer CalHFA's Financial Services

The role of the Financing Division is to provide and manage borrowed capital to finance CalHFA's programs. The Division is also charged with managing CalHFA's outstanding debt obligations, non-mortgage investments and making recommendations concerning general financial matters.

The Fiscal Services Division supports CalHFA activities through the receipt and disbursement of financial resources, the safeguarding of assets, the servicing of loans and by recording and reporting on financial matters of the Agency in accordance with professional standards in meeting all federal, state and indenture requirements.

Achievements 2002- 03

- Contracted to issue \$1.8 billion of bonds during the fiscal year, including 25 new interest rate swap agreements for \$1.1 billion of new variable rate bonds.
- Received a national award in the Management Innovation category from the National Council of State Housing Agencies for its innovative interest rate swap strategy.
- Continued the wholesale use of variable rate bonds and interest rate swaps, thus enabling the Agency to offer below-market interest rates and achieve volume goals in both the Homeownership and Multifamily Divisions.
- Continued to cultivate its important partnership with the Federal Home Loan Bank of San Francisco, selling it over \$500 million of new taxable indexed-rate bonds, including \$345 million of newly-developed products.
- Coordinated the annual financial audits of the Housing Finance Fund and the Housing Loan Insurance Fund. In both instances, no audit findings were identified, resulting in unqualified opinions issued by independent auditors.
- Enhanced ongoing support services to keep pace with the expanded CalHFA program menu as a result of Proposition 46 funding
- Implemented the Customer Care enhancement program that allows borrowers—whose loans are serviced by CalHFA—online access to their loan account information.

Growing Forward 2003-04

The Financing Division will provide for the issuance of more than \$8 billion of CalHFA bonds for the portion of its programs that are not funded by the State. The strategy will be to continue to achieve the lowest possible cost of funds by issuing variable-rate debt and employing interest rate swaps, where appropriate. Additionally, the Fiscal Services Division will continue to meet the Agency's financial management and reporting needs to support CalHFA's five-year growth plan, which will involve an expansion in the homeownership and multifamily loan portfolios and mortgage insurance underwriting activity.



SUPPORT SERVICES

*CalHFA's
Support Services
Divisions are
instrumental in
helping the
Agency meet
its short and
long-term goals
of expanding
affordable housing
opportunities.*

The Administrative Division supports the operational needs of CalHFA by providing staffing, facilities, equipment and technology. For this fiscal year, the Division successfully provided resources to support a host of new programs funded through Proposition 46.

The Office of General Counsel manages the legal affairs of CalHFA by providing the Agency with sound legal advice for day-to-day operations, as well as consultation and legal services to support each Division's business plans. Over the past year, the Office of General Counsel enhanced its infrastructure by hiring additional talent and acquiring legal technology.

The Legislative Division ensures that key legislation which impacts affordable housing initiatives is monitored, analyzed and enacted into law. During the past year, the Division continued its efforts to increase co-sponsorship and support to eliminate the federal Ten Year Rule, which restricts its ability to recycle homeowner mortgage payments into new loans for first-time homebuyers. In addition, the Agency sponsored State Senate Bill 3453 (Chapter 193, Statutes 2003), which allows the Agency to subordinate to local or federal affordability and regulatory restrictions, and would clarify the Agency's ability to make loans that are secured by assets other than real property.

We also sponsored portions of Assembly Bill 304 (Chapter 553, Statutes 2003), which will give the Agency additional flexibility in a number of its downpayment assistance programs, and will increase the allowable income for CalHFA's Mortgage Insurance Program to make it consistent with the definition of Affordable Housing used by the Government Sponsored Enterprises. All of these changes were specifically designed to increase homeownership and rental opportunities for low and moderate income families throughout California.

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