



CALIFORNIA HOUSING FINANCE AGENCY
A COMPONENT UNIT OF THE STATE OF CALIFORNIA

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PARTNERING TO MAKE A DIFFERENCE



POPULAR ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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CALIFORNIA HOUSING FINANCE AGENCY

Popular Annual Financial Report for the Year Ended June 30, 2017

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Introduction

The California Housing Finance Agency is pleased to present our Popular Annual Financial Report of the California Housing Finance Fund for the fiscal year ending June 30, 2017. This report gives a general overview of CalHFA's financial position. It also shows our continuing commitment to prudent and responsible financial management, in addition to giving context and background about the environment in which we operate.

Financial information in this document is a distillation of the much more detailed Comprehensive Annual Financial Report, and will be of more interest to the general public than to financial analysts.

The Comprehensive Annual Financial report was written to conform with generally accepted accounting principles, and includes financial statements audited by CliftonLarsenAllen, LLP. Requests for hard copies can be sent to the Sacramento address on the back of this report, and the PDF version is available on our website at www.calhfa.ca.gov.

We hope this report is helpful in understanding our work to help more Californians find a place to call home.



Tia Boatman Patterson
EXECUTIVE DIRECTOR



About CalHFA

For more than 40 years, the California Housing Finance Agency has supported the needs of renters and homebuyers by providing financing and programs so more low to moderate income Californians have a place to call home. Established in 1975, CalHFA was chartered as the state's affordable housing lender, with two distinct lending divisions.

The Single Family Lending division offers a variety of products and programs that help Californians with solid credit and employment achieve the dream of homeownership. These programs include first mortgages and down payment & closing cost assistance, with special programs for teachers, school employees, veterans and those needing help with financing for energy-efficient upgrades.

The Multifamily Lending division administers programs that create and preserve rental housing in California. Our programs serve low and moderate income households, including veterans, seniors, transitional-age youth, families in danger of homelessness and those with special needs. We provide acquisition/rehabilitation loans, permanent financing and conduit bond issuance. Collaboration with local, state and federal partners, in addition to private banks, owners, non-profits and developers maximizes the number of people we can help.

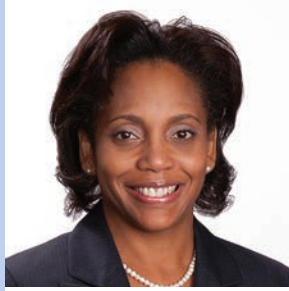
Over the course of our existence, we have helped more than 167,000 Californians purchase their first home with a mortgage they can afford, and helped build and preserve more than 63,000 affordable homes and apartments for those who need it most.



Members of the Board of Directors



Janet Falk
CALHFA BOARD CHAIR



Tia Boatman Patterson*
EXECUTIVE DIRECTOR,
CALIFORNIA HOUSING
FINANCE AGENCY



Alexis Podesta
SECRETARY, BUSINESS, CONSUMER
SERVICES AND HOUSING AGENCY,
STATE OF CALIFORNIA



Michael A. Gunning
VICE PRESIDENT, PERSONAL
INSURANCE FEDERATION
OF CALIFORNIA



Ben Metcalf
DIRECTOR, DEPARTMENT OF
HOUSING AND COMMUNITY
DEVELOPMENT, STATE OF
CALIFORNIA



Stephen Russell
EXECUTIVE DIRECTOR,
SAN DIEGO HOUSING FEDERATION



Eileen Gallagher
MANAGING DIRECTOR, STIFEL
SAN FRANCISCO PUBLIC
FINANCE OF CALIFORNIA



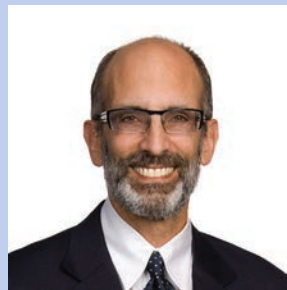
Michael J. Cohen*
DIRECTOR, DEPARTMENT OF
FINANCE, STATE OF CALIFORNIA



Jonathan C. Hunter
CONSULTANT, JCHUNTER
CONSULTING



Dalila Sotelo
PRINCIPAL, THE SOTELO GROUP



Ken Alex*
DIRECTOR, OFFICE OF PLANNING
AND RESEARCH,
STATE OF CALIFORNIA



Dr. Vito Imbasciani
SECRETARY, DEPARTMENT OF
VETERANS AFFAIRS,
STATE OF CALIFORNIA



Tiena Johnson-Hall
SVP, COMMUNITY
DEVELOPMENT FINANCE
MANAGER, BBVA COMPASS



AnaMarie Avila Farias
HOUSING AUTHORITY
OF CONTRA COSTA COUNTY



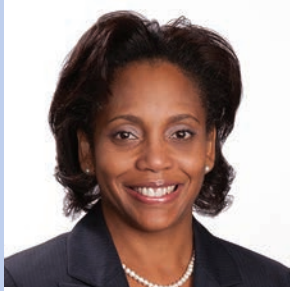
Preston Prince
CEO AND EXECUTIVE DIRECTOR,
FRESNO HOUSING AUTHORITY



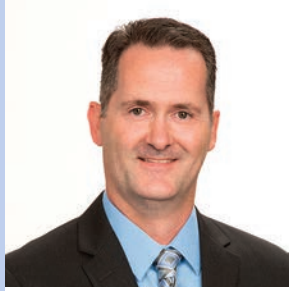
John Chiang
STATE TREASURER,
STATE OF CALIFORNIA

* NON-VOTING

CalHFA Senior Staff



Tia Boatman Patterson
EXECUTIVE DIRECTOR,
CALIFORNIA HOUSING
FINANCE AGENCY



Donald Cavier
CHIEF DEPUTY DIRECTOR



Lori Hamahashi
COMPTROLLER



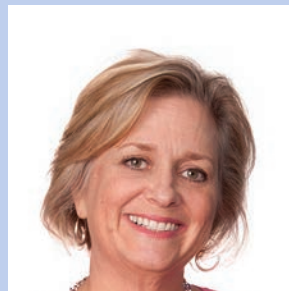
Timothy Hsu
DIRECTOR OF FINANCING



Liane W. Rhodes
CHIEF INFORMATION OFFICER



Kathy Phillips
DIRECTOR OF MARKETING



Diane Richardson
DIRECTOR OF LEGISLATION



Anthony Sertich
DIRECTOR OF MULTIFAMILY
PROGRAMS

Financial Highlights

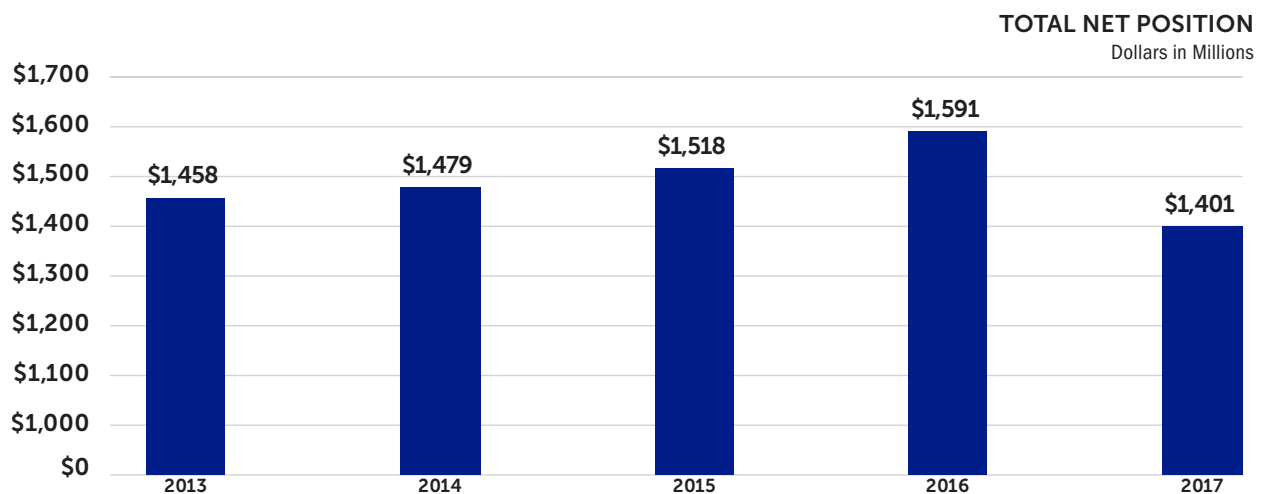
The Statement of Net Position is a snapshot of the fiscal condition of the Fund at a certain point in time, namely, the end of the fiscal year on June 30. Increases or decreases in the Fund's net position are one indicator of whether its financial status is improving, stable, or deteriorating. There are also other indicators that should be considered when reviewing the operational results of the Fund, such as changes in the interest rate environment, bond market, state and federal laws governing the Fund's programs, the tax code, and the real estate market in the state. All of the Fund's net position is restricted pursuant to trust agreements with bondholders, the Agency's enabling legislation or net investment in capital assets. Deferred outflows and inflows of resources are a consumption and acquisition, respectively, of net assets by the Agency which are applicable to a future reporting period.

Our financial position of strength and stability is supported by a variety of outstanding Single Family and Multifamily loan products and conservative management principles. The overall financial condition of the Housing Finance Fund remained stable as the assets and deferred outflows of resources of the Fund exceeded liabilities and deferred inflows of resources at the close of the fiscal year by \$1.4 billion (net position). Total assets decreased by \$667.6 million to \$4.07 billion.

The \$190.8 million decrease in net position was primary due to the transfer out of \$374.4 million in assets and liabilities related to Senate Bill 837. This bill authorized the transfer of monies for various down payment assistance programs previously accounted for in the Housing Finance Fund to the Home Purchase Assistance Fund. This transfer was offset by the change in net position prior to the transfer, which was \$150.2 million. A decrease in net position may indicate that the financial status of the Fund is deteriorating. This decrease, however, was a result of a legislative change and not a result of the financial operations of the Fund.

Following is a comparison of the Fund's abbreviated Statement of Net Position as of June 30 (dollars in millions):

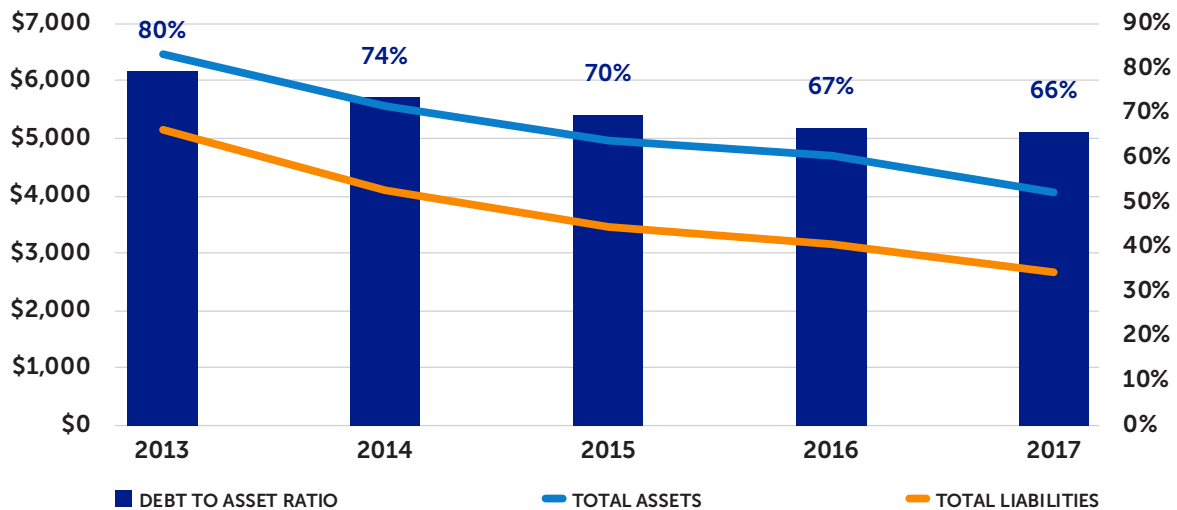
CONDENSED STATEMENT OF NET POSITION					
	2013	2014	2015	2016	2017
Total Assets & Deferred Outflows	\$ 6,630	\$ 5,596	\$ 5,016	\$ 4,774	\$ 4,094
Total Liabilities & Deferred Outflows	\$ 5,172	\$ 4,117	\$ 3,498	\$ 3,183	\$ 2,693
TOTAL NET POSITION	\$ 1,458	\$ 1,479	\$ 1,518	\$ 1,591	\$ 1,401



Financial Highlights

TOTAL ASSETS, TOTAL LIABILITIES AND DEBT TO ASSET RATIO

Dollars in Millions



The Agency's assets primarily consist of cash, investments, interest receivable, accounts receivable, and program loan receivables. The liabilities predominantly consists of bonds, notes and loans payable, interest payable, and compensated absences which represent the amount of accrued vacation or annual leave balances for the Agency's employees.

Total assets were \$4.1 billion as of June 30, 2017 compared to \$4.7 billion as of June 30, 2016 and \$5 billion as of June 30, 2015. This represents a decrease of \$667.6 million (or 14.1%) from the prior year and a decrease of \$251.8 million (or 5.1%) from June 30, 2015 to June 30, 2016. The decrease in total assets is primarily due to the \$381 million transfer in assets related to Senate Bill 837 and an increase in bond redemption activities from the prior year.



Financial Highlights

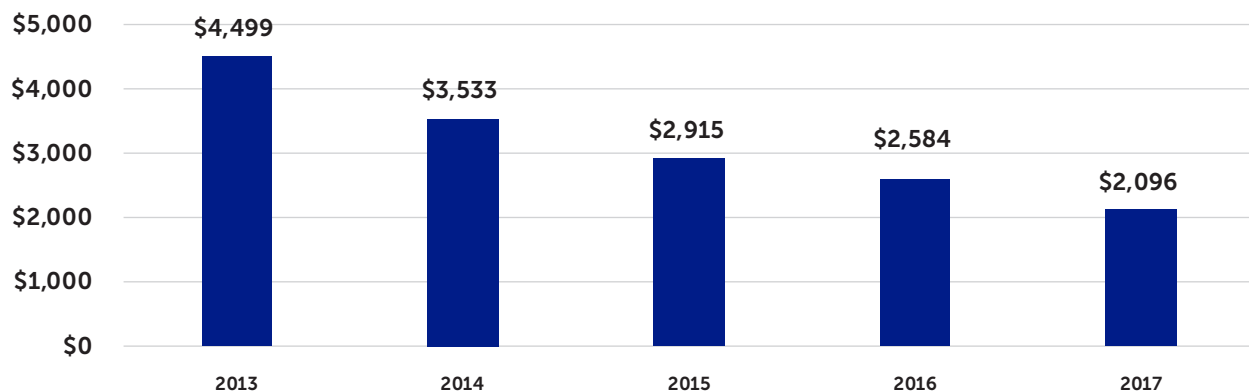
LONG TERM DEBT

The Agency's enabling legislation empowers the Agency, on behalf of the Fund, to issue both federally taxable and tax exempt bonds and notes. Bonds and notes issued by the Agency are not debts of the state but are special and general obligations of the Agency payable solely from and collateralized by the revenues and other assets pledged under the respective indentures. The Agency has the authority to have outstanding bonds or notes, at any given time, in the aggregate principal amount of \$13.15 billion excluding refunding issues and certain taxable securities.

The Fund's net bonds payable at June 30, 2017 decreased by \$488.1 million from the prior year to \$2.1 billion, mainly due to \$713.7 million in bond redemptions plus \$50.3 million of scheduled principal maturities, less \$278.2 million of new bonds issued. The Fund's Notes Payable remained relatively the same from the previous year.

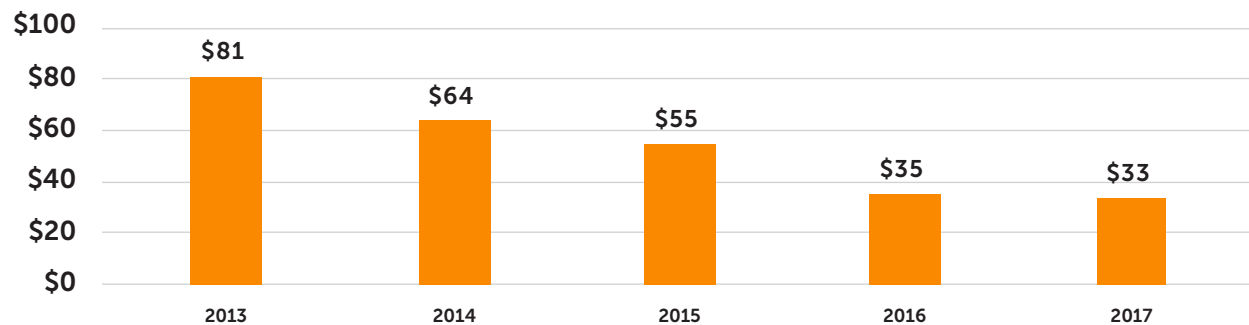
BONDS PAYABLE

Dollars in Millions



NOTES PAYABLE

Dollars in Millions

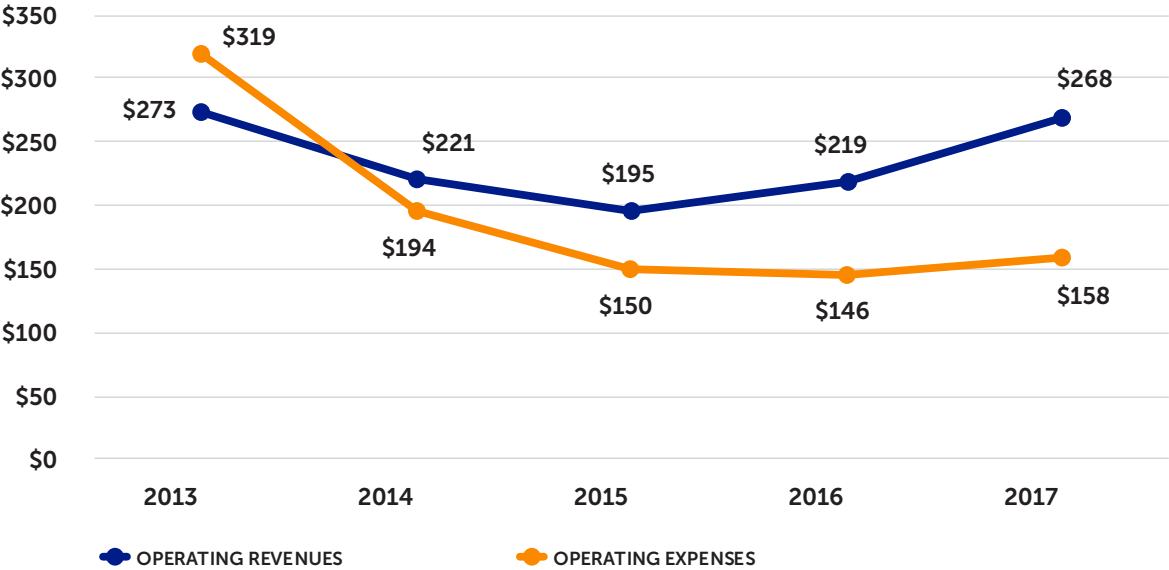


Financial Highlights

The Fund’s operating revenues and expenses are activities classified as core business of the Fund. The Fund’s primary operating revenue is derived from the interest income on Single Family and Multifamily loans as well as the Single Family Lending Program fee revenue and gain on sale of the securities related to the Single Family Lending Program. The Fund’s primary expense is interest expense on bonds outstanding, while net interest income is an important measure of performance for the Fund.

OPERATING REVENUES AND OPERATING EXPENSES

Dollars in Millions



Total operating revenues of the Fund was \$268.1 million for FY 2017, compared to \$219.4 million for FY 2016, an increase of \$48.7 million or 22.2%. The FY 2017 increase is primarily due to the increase of \$54.2 million on the gain on sale of securities related to the Single Family Lending Program; other revenues increased by \$22.4 million primarily in Single Family Lending Program fee revenue, as loan volume in the program significantly increased; this was offset by a decrease of \$23.7 million in interest income as related program loans receivable decreased.

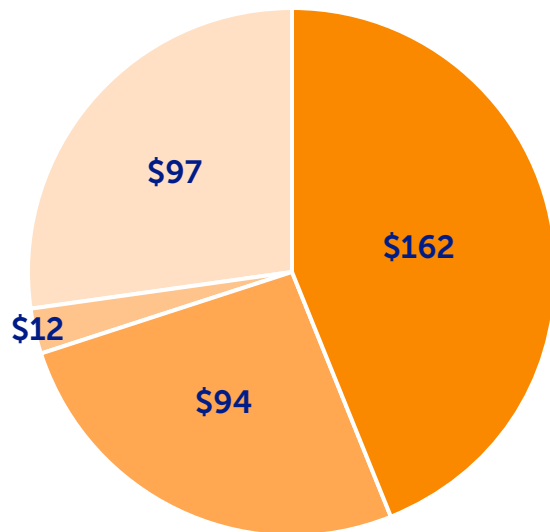
Total operating expenses of the Fund were \$157.9 million for FY 2017 compared to \$145.5 million for FY 2016, an increase of \$12.4 million or 8.5%. The FY 2017 increase is primarily due to other expenses increasing by \$21.9 million primarily due to an increase in service release fees and hedging costs associated with the high volume of loans in the Single Family Lending Program, and increase in bad debt expenses associated with allowance for interest receivables, and an offset by a decrease in interest expense of \$8.2 million.

Financial Highlights

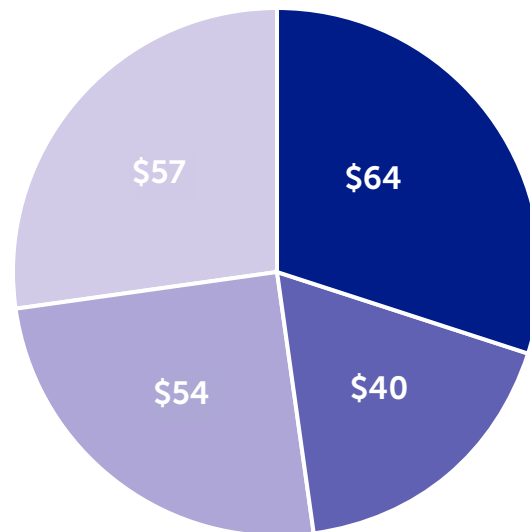
2017 TOTAL REVENUES: \$365 MILLION

2017 TOTAL EXPENSES: \$215 MILLION

(DOLLARS IN MILLIONS)



- INTEREST INCOME - 44%
- REALIZED GAIN/LOSS ON SALE OF SECURITIES - 26%
- OTHER LOAN FEE & OTHER REVENUES - 3%
- NON-OPERATING REVENUES - 27%



- INTEREST EXPENSES - 30%
- SALARIES & GENERAL EXPENSES - 18%
- OTHER LOAN FEE & OTHER REVENUES - 25%
- NON-OPERATING EXPENSES - 27%

NON-OPERATING REVENUES AND EXPENSES

The Fund's non-operating revenues and expenses include the reporting of HUD's Section 8 Housing Assistance Program and Section 811 Project Rental Assistance Demonstration Program along with the Department of Treasury's National Foreclosure Mitigation Counseling Program. Also included in this section are activities not classified as core business activities of the Fund.

Non-operating revenues and non-operating expenses were \$97.5 million and \$57.4 million for FY 2017, respectively. Total non-operating revenues and non-operating expenses were \$40.1 million for FY 2016, an increase of \$36.6 million from FY 2016. The increase is primarily due to the increase in Investment SWAP revenue (fair value). The six-year taxable rate used in the fair market valuation process had a significant increase of approximately 1% in FY 2017.

Financial Highlights

ECONOMIC CONDITION AND OUTLOOK

The Fund’s housing programs are the primary source of income for the Fund. Various economic and regulatory factors such as prevailing economic conditions, mortgage interest rates, investment rates, the demand for housing, the cost of housing and of operating housing programs, the volume of mortgage lending activity in the State and other factors affecting the supply of housing in the state can create significant challenges for the Agency in single family and multifamily housing programs as well as its overall operations.

Nonetheless, the Agency’s lending activities have experienced excellent progress during the FY 2017. The revenues generated from the participation in the To Be Announced (“TBA”) market rate program accounted for nearly 35% of the agency’s total operating revenues during FY 2017 and will continue to have a significant impact on the Agency’s operations in FY 2018. The rapid growth is partially attributable to implementation of operational efficiencies, including the change of master servicer which eliminated a backlog of suspended loans that were purchased in the first half of the fiscal year. The volume of single family first mortgage purchases through the TBA market rate program reached over \$1.8 billion, with an additional \$133 million in subordinate lending for down payment and/or closing cost assistance.

Multifamily lending activities fell short of projected lending activities due to the recent increases in the interest rate environment and the uncertainty of the tax credit markets. During FY 2018, the Agency’s pipeline of multifamily loans is expected to surpass FY 2017 based on its composition of new permanent takeout loans that have longer duration and better yields. This is in contrast to FY 2017, when many of the multifamily transactions were portfolio recapitalizations in which yield maintenance concessions have partially offset revenues. Further, we are pleased to report the



Financial Highlights

Fund's successful efforts to strengthen its financial position by expanding credit facilities for both Single Family and Multifamily programs and increasing return on equity by entering into partnerships with Federal Home Loan Bank of San Francisco and Federal Financing Bank.

The U.S. economy, particularly the housing market and low interest rates, has had a significant impact on the Fund's operations during the past several years. The continued increase in interest rates along with future predictions of increasing interest rates have improved the Fund's position, especially in regards to its derivative agreements. The Agency has a significant (although decreasing) interest-rate swap portfolio and fluctuations in interest rates can impact the Agency's collateral posting requirements. In general, higher interest rates will reduce the collateral posting requirements and improve the Agency's liquidity profile; lower interest rates will increase the collateral posting requirements and limit the Agency's liquidity profile. However, because of the significant decrease in the notional amount of the Agency's interest-rate swap portfolio since the housing crisis, the fluctuations in the collateral postings, if any, would be minimal.

In addition to modifying the Agency's lending activities to increase operational revenues, the Agency plans to continue to combat the challenges of the economy by actively reducing its debt costs through both refunding opportunities and early redemption of debt, especially with regards to its variable rate debt.

Another significant factor impacting the Agency's operations is the trend in California home sale prices, which continued to increase in FY 2015, FY 2016 and FY 2017. The upward trend in single family home prices has had a positive impact on the Agency's profitability, although if prices trend too high, first-time homebuyers may be unable to afford homes in high-cost areas.

During FY 2017, three credit ratings primarily impacted the Agency's financial results:

- (1) CalHFA's issuer credit rating with S&P remained "A positive outlook," and Moody's outlook improved from "A2 stable outlook" to "A2 positive outlook."
- (2) CalHFA's Home Mortgage Revenue Bonds - S&P's underlying rating's outlook improved from "AA- stable outlook" to "AA- positive outlook" and Moody's underlying rating improved from "A2 stable outlook" to "A1 positive outlook."
- (3) CalHFA's Multifamily Housing Revenue Bonds III rating remained unchanged - S&P "AA+ stable outlook"/Moody's "A1 stable outlook."

CALHFA CREDIT RATINGS

	S&P	MOODY'S
Issuer	A, positive outlook (unchanged)	A2, positive outlook ↑
HMRB	AA-, positive outlook ↑	A1, positive outlook ↑
MHRBIII	AA+, stable outlook (unchanged)	A1, stable outlook (unchanged)

Financial Highlights

As the Fund moves into FY 2018 and beyond, the Housing Finance Fund will also continue to search for new methods to expand its Single Family and Multifamily lending activities consistent with state housing needs, work collaboratively with other housing entities and stakeholders to deliver effective innovative housing solutions and prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and /or significant negative equity.

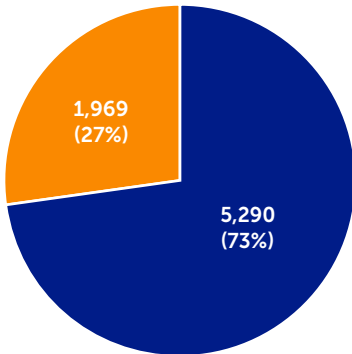
Readers wanting more detailed financial information on any of the Housing Finance Fund's financial activities and results should refer to the Fund's FY 2017 Comprehensive Annual Financial Report (CAFR) available on the California Housing Finance Agency's website at: www.calhfa.ca.gov/about/financials/reports/



Statistical Snapshot

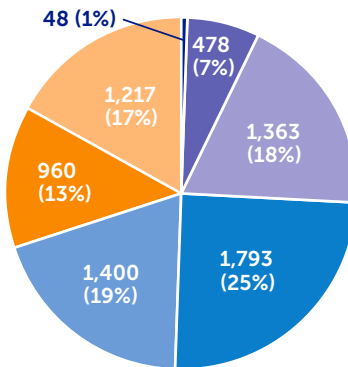
SINGLE FAMILY

FHA VS. CONVENTIONAL LOAN COUNT



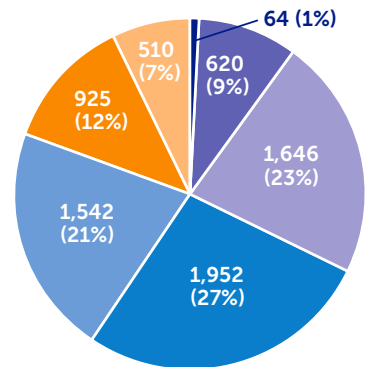
■ FHA LOANS
■ CONVENTIONAL LOANS

LOANS BY SALES PRICE



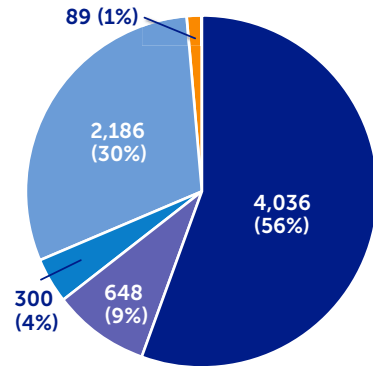
■ LESS THAN \$100,000 ■ \$250,001 TO \$300,000
■ \$100,001 TO \$150,000 ■ \$300,001 TO \$350,000
■ \$150,001 TO \$200,000 ■ \$350,001 AND OVER
■ \$200,001 TO \$250,000

LOANS BY INCOME



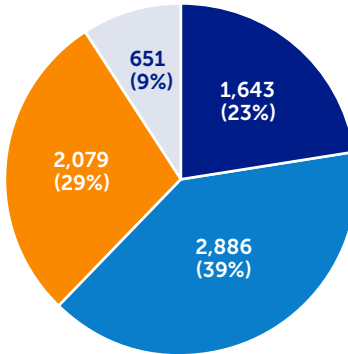
■ LESS THAN \$25,000 ■ \$70,001 TO \$85,000
■ \$25,001 TO \$40,000 ■ \$85,001 TO \$100,000
■ \$40,001 TO \$55,000 ■ \$100,001 AND OVER
■ \$55,001 TO \$70,000

LOANS BY ETHNICITY



■ HISPANIC ■ WHITE
■ AFRICAN AMERICAN ■ OTHER
■ ASIAN

LOANS BY HOUSEHOLD SIZE



■ 1-2 ■ 5-6
■ 2-3 ■ 6+

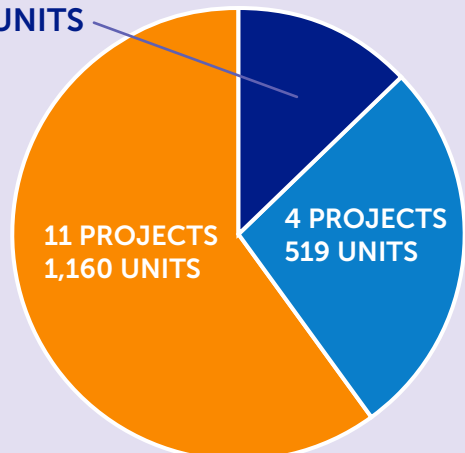
MULTIFAMILY

Total MF lending:

17 PROJECTS
1,929 UNITS

■ NORCAL - 13%
■ BAY AREA - 27%
■ SOCAL - 60%

2 PROJECTS, 250 UNITS





California Housing Finance Agency

A COMPONENT UNIT OF THE STATE OF CALIFORNIA

SACRAMENTO OFFICE

P.O. BOX 4034
SACRAMENTO, CA
95812-4034
(916) 326-8000

LOS ANGELES OFFICE

100 CORPORATE POINTE, SUITE 250
CULVER CITY, CA
90230
(310) 342-5400

WWW.CALHFA.CA.GOV

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**POPULAR ANNUAL
FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017