System Overhaul: Financial Decision-Making Reboot with Updated Policies & Revamped Oversight

California Housing Finance Agency

Management Innovation: Financial

HFA Staff Contact

Eric Johnson

ejohnson@calhfa.ca.gov

Overview

In the past year, the California Housing Finance Agency has completely paid off swap liabilities incurred before the Great Recession, achieved the highest credit rating in Agency history, and positioned itself to enter the capital markets for the first time in nearly a decade under new parity indentures. To achieve these goals and to address the continued challenges created by the current financial environment, CalHFA's Financing Division did a comprehensive analysis and overhaul of the Agency's policies and procedures to create a concrete, streamlined process for financial decision-making. This process is overseen by three internal committees: the Financial Risk Management Committee; the Investment and Debt Management Committee; and the Disclosure Committee.

Background

Coming out of the Great Recession in 2010, CalHFA incurred losses of more than $70 million annually for a total of $300 million losses from 2010 to 2013. As of August 2011, the Agency was saddled with $4.9 billion in variable rate bonds (65% of total outstanding debt) and $2.7 billion in interest rate swaps that required CalHFA to post $107 million in collateral. As a result, the major credit ratings agencies (S&P and Moody's) had downgraded CalHFA's ratings to the lowest in Agency history.

At that time, CalHFA created policies and procedures to address various aspects of its finances, such as paying down all existing variable rate bonds and limiting the use of interest rate swaps, but this recent analysis showed that these were not sufficient to address contemporary challenges, detailed below:

- In a volatile market, how can CalHFA guarantee a cost of capital 36 months in the future that would result in a positive spread, when it is lending at less than 3.50% for its multifamily permanent loan product?
- As of December 31, 2021, CalHFA still had more than $360 million in outstanding swaps, equal to a liability of $70 million. This required $17.8 million in collateral and swap payments of approximately $1 million a month, weakening the balance sheet and reducing net revenues.
- How would CalHFA achieve increased credit ratings and financially sustainable Agency growth proposed in the FY 21-22 Strategic Plan that was approved by the Agency's Board of Directors?
- Knowing that CalHFA had not issued tax-exempt bonds for multifamily permanent loan commitments under a parity indenture since 2014, almost exclusively using the Federal Financing Bank (FFB), and that the Federal Reserve's reduction purchases of MBS has negatively affected the Agency's TBA execution, how could CalHFA position itself to access the capital markets again to support higher production goals?

Board Adoption of Policies and Committee Education

In late 2021, CalHFA's new Director of Financing began to revamp the Financing Division's policies to more effectively manage the financial activities that form the backbone of the Agency's operations and management. The objective was to create a streamlined approach for approvals, whereby small committees of between five and seven directors, representing a cross-section of disciplines, would provide clear and concise management reporting on a more frequent basis and thereby enable the Executive Director or Chief Deputy Director to make timely and informed decisions on actions recommended by the committees. *(Note: Previously, the committees had between seven and 12 members and had an infrequent and undefined meeting schedule.)*

To complete this system overhaul, CalHFA updated existing policies and expanded their scope. The CalHFA Board then approved these policies on March 17, 2022. The policies are summarized below:

- A Hedge Policy that solely pertained to new swaps was updated and expanded in scope to be the new Financial Risk Management Policy, which covered orphan (pre-2014) swaps, new swaps, risks (including counterparty diversification) and operational reserve funds. (Figure D)
- The Investment Policy was updated and expanded in scope to be the new Investment and Debt Management Policy with references to statutory authority and policy for issuance of bonds and other obligations. (Figure E)
- The Disclosure Policy, adopted by the Board for the first time, included some areas being made less restrictive (e.g. specific website URLs for posting financial information) with others getting additional requirements (e.g. notice period for Executive Director to review). (Figure F)

In 2022, each committee received educational courses presented by CalHFA's Director of Financing, with outside experts adding details on legal matters, bond financing and interest rate swaps.

Financial Risk Management activities

To address interest rate risk, the Financial Risk Management Committee reviews and recommends individual hedges for multifamily forward commitments to the Executive Director or Chief Deputy Director. The committee undertook two key initiatives in 2022: a Multifamily Commitment Hedge effort to actively manage interest rate risk, and a Swap Termination effort.

The first initiative saw CalHFA, under the direction of the committee, enter into qualified hedges (cash-settled, forward starting swaps that meet IRS standards for tax-exempt bonds) to address interest rate risk between rate lock and permanent loan conversion, typically a period of 24-36 months, with a provision for 6-month extension of the rate lock. CalHFA also issued an RFI to increase counterparty diversification and successfully added four new counterparties in the past year.

The second initiative, which required precise market timing for maximum success, was a great example of CalHFA's new streamlined decision-making process at work. After meeting Aug. 2022 to review interest rate risk, current swaps, and orphan swap exposure, interest rates rose sharply. The committee was able to get back together on 9/6/22 to quickly hash out a termination initiative timeline and budget of $34.5 million. Days later, CalHFA's swap advisor, Evercrest Advisors, issued an RFI for counterparties seeking indicative levels for termination. The termination initiative lasted from 9/8/22 to 3/9/22.

Investment and Debt Management Committee

CalHFA's Investment and Debt Management Committee was charged with oversight of the issuance of the Agency's bonds. Due to the temporary closure of the FFB program from Jan. 2020 through Oct. 2021, and as an alternative to moving away from total reliance on a federal program, CalHFA needed to issue tax-exempt bonds to raise capital to support its growing multifamily production targets.

Additionally, with the Federal Reserve curtailing MBS purchases in March 2022, CalHFA needed an alternative means of financing single family production outside of the TBA market.

After advising on the creation of an RFQ, released in May 2022, the committee sat as the interview panel to find an underwriter that could serve as an innovate senior manager for the Agency's bond issuances for both single family and multifamily programs. This effort represented the first time that CalHFA conducted a competitive process to select underwriters since 2004.

After redeeming all outstanding parity bonds under the current Multifamily Housing Revenue Bonds III Indenture, CalHFA is in the process of drafting new documentation, with direction from the committee.

Results

This overhaul of the Agency's financial policies and procedures to create a concrete, streamlined process for financial decision-making including expanded oversight by internal committees has resulted in the following measurable successes many of which should be replicable by other housing finance agencies.

- Successful hedging of higher interest rates, in current market
    - Enacted 1st hedge on 1/7/22, with 10-year Treasury yielding 1.76% vs. 3.44% as of 4/28/23
    - Mark to market of current hedges of $19.7 million as of 4/28/23
    - Negotiated four additional ISDAs for counterparty diversity (up from one in 2022)
    - Establishment of hedge reserve fund for future qualified hedge cash settlements

- Successful termination of all outstanding orphan swaps, dating back to 2000
    - Improvement in swap mark-to-market from a liability of $70 million on 12/31/21 to an asset of $19.7 million by 4/28/23 – an improvement of $89.7 million. (Figure A)
    - Superior market timing in the 99th percentile in terms of timing since 2008 (Figure B)
    - Return of $20.3 million in posted collateral to CalHFA
    - Negotiated aggregate termination discount of $733,000, equal to approximately 5 basis points below mid-market

- Upgraded to highest rating in the history of CalHFA by S&P Global Ratings in December 2022
    - Higher rated than State of California General Obligation Bonds
    - Improved assessment of management from "experienced" in 2019 ("A" rating) to "Extremely strong" in 2022 ("AAA" rating), narrated as follows (full report as Figure C):
        - Jan. 2019: "Experienced leadership and senior management team dedicated to the agency's public purpose mission."
        - Improved in 2022 to: "Extremely strong management team and board members with strong organization, administrative, financial management, and strategic planning capabilities as well as senior management's experience and track record of successfully managing programs even during difficult times."
    - Credit review pending for Moody's Investors Service, as of 4/28/23.

- Establishing two new parity indentures for Single and Multifamily Programs

- Implementation of an online form for material event disclosure compliance, increasing response rate to 80% within 72 hours of initial request compared to 15% using prior PDF form sent via email.

Figure A: CalHFA Improved Net Swap Position by $90 million in last 16 months

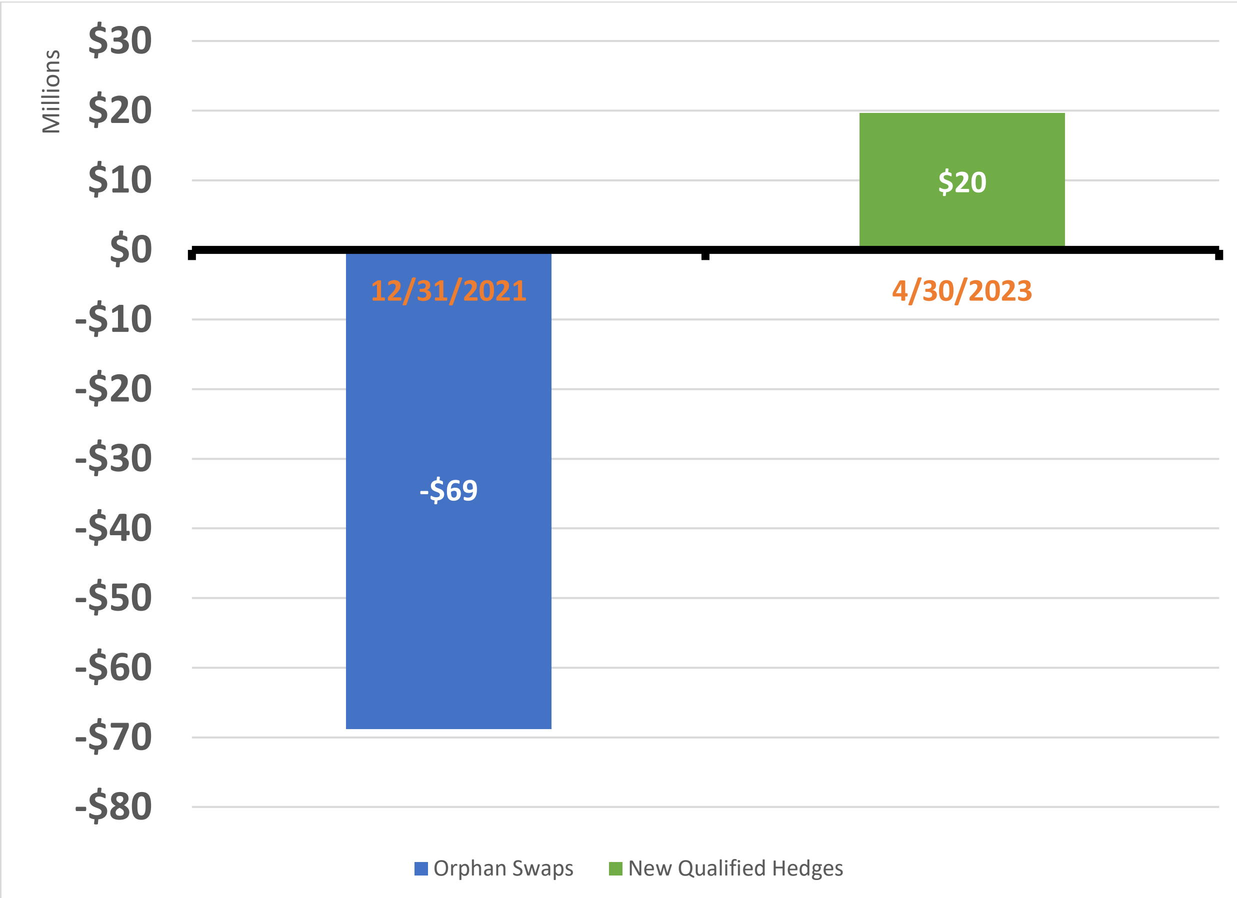

Figure B: CalHFA achieved termination costs better than 99% of the time since 2008

Figure C: S&P Rating Upgrade Report – December 2022

S&P Global
Ratings

RatingsDirect®

California Housing Finance Agency; General Obligation

Primary Credit Analyst:
Aulii T Limtiaco, San Francisco + 1 (415) 371 5023; aulii.limtiaco@spglobal.com

Secondary Contact:
Joan H Monaghan, Denver + 1 (303) 721 4401; Joan.Monaghan@spglobal.com

Table Of Contents

Figure C: S&P Rating Upgrade Report – December 2022

California Housing Finance Agency; General Obligation

Credit Profile		
California Hsg Fin Agy ICR		
Long Term Rating	AA/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its issuer credit rating (ICR) to 'AA' from 'AA-' on the California Housing Finance Agency (CalHFA, or the agency).
- The outlook is stable.
- The rating action reflects our view of CalHFA's significant improvement in financial ratios over the past two fiscal years, to levels above those of peers, as well as its significant reduction in leverage and risk.

Security

An ICR reflects our view of the obligor's general creditworthiness, focusing on its capacity and willingness to meet financial commitments as they come due. It does not apply to any specific financial obligation because it does not consider the obligation's nature and provision, standing in bankruptcy or liquidation, statutory preferences, or legality and enforceability.

Credit overview

The rating reflects our view of CalHFA's:

- Financial strength as measured by nearly $2.9 billion in equity, with a five-year equity-to-assets ratio 51.3%, which we view as above average relative to that of peers;
- Above-average profitability compared with that of peers with a return on average assets (ROA) of 16.3% in fiscal 2021, with a five-year average of 7.05% as well as a five-year average net interest margin of 2.5%;
- Higher-than-average asset quality as measured by five-year average nonperforming assets (NPAs) to total assets of 1.4%;
- Stronger-than-average liquidity as measured by five-year average short-term investments to total assets of 28.7% and five-year average total loans (including program mortgage-backed securities) to total assets of 62.1%;
- Extremely strong management team and board members with strong organizational, administrative, financial management, and strategic planning capabilities as well as senior management's experience and track record of successfully managing programs even during difficult times; and
- Strong economic environment, with California's high income levels (per capita income was 119% of the U.S. average in 2021) and good economic diversity.

Partly offsetting the above strengths, in our view, is the reduction in CalHFA's balance sheet since the Great Recession.

WWW.STANDARDANDPOORS.COM/RATINGSDIRECT DECEMBER 12, 2022 2

Figure C: S&P Rating Upgrade Report – December 2022

While the decline in liabilities has outpaced the decline in assets, contributing to the improvement in financial metrics, the reduction in loans and long-term assets has contributed to a reduction in ongoing revenue-generating programs and loan production. However, the agency's strategic plans include increasing debt to finance on-balance-sheet single-family and multifamily loans. We view this as a proactive step in line with its mission, so we expect ratios to somewhat decline to levels more in line with our 'AA' category benchmarks.

Environmental, social, and governance

We analyzed CalHFA's environmental, social, and governance risks relative to its financial strength, management and legislative mandate, and the local economy. In our opinion, the ICR exhibits social opportunities related to social capital. The agency's mission to invest in diverse communities with financing programs that help more Californians have a place to call home aims to address socioeconomic inequities affecting demographic and income trends considered in our rating. Our rating also incorporates the elevated environmental risks for California given its exposure to various climate-related events such as wildfires and drought, and natural disasters such as earthquakes can affect the state's economy and disrupt population migration should these areas become undesirable. However, we believe the agency's financial strength, especially relative to its minimal debt profile, mitigates these risks. We view social and governance risks as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that CalHFA's financial ratios, which are above our 'AA' category benchmarks, will decline to some degree, compared with the current very high levels given the agency's leverage and on-balance-sheet lending plans. While we expect capital adequacy and profitability to remain somewhat elevated compared with those of peers during the outlook period, these ratios may stabilize in the longer term as CalHFA's new programs begin and balance sheet assets grow.

Downside scenario

Although such a scenario is unlikely during the outlook period given CalHFA's above-average financial ratios, we could take a negative rating action if the agency's financial performance significantly declined to the point where they were no longer in line with our 'AA' category benchmarks.

Upside scenario

Should CalHFA's financial ratios remain well above our 'AA' category benchmarks, we could take positive rating action. Given the agency's strategic plans, we expect an increase in leverage and on-balance-sheet lending during the outlook period that will result in a decline in key financial ratios. If ratios continue to exceed our benchmarks even after this anticipated decline, with no changes in other criteria factors, they could support a higher rating.

Figure D: CalHFA Hedge Policy – 2022

CALIFORNIA HOUSING FINANCE AGENCY

Financial Risk Management Policy
Dated: May 5, 2014
Amended and Restated: April 21, 2022

I. Purpose

The purpose of this Financial Risk Management Policy (the "Policy") is to provide guidelines for the establishment and maintenance of financial reserves and the use and management of interest rate swaps and other derivative financial products for financial risk management in conjunction with the California Housing Finance Agency's ("CalHFA" or the "Agency") financing activities.

The Agency seeks to broaden the existing Master Hedge Policy to include other Agency financial risks and risk mitigation strategies including reserve funds, and management of other long-term liabilities to reduce market and interest rate risk exposure. This Policy amends and restates the Master Hedge Policy dated May 5, 2014, as amended and also incorporates the Emergency Reserve Account established in Resolution 17-12.

II. Board of Directors

The Board of Directors (the "Board") shall receive written notice of changes to this Policy and reports as detailed herein. The Board retains sole authority to change Section II of this Policy.

III. Executive Director

The Executive Director shall be responsible for overseeing this Policy and approving any changes recommended by the Financial Risk Management Committee to this Policy. The Executive Director may designate the Chief Deputy Director to approve changes recommended by the Financial Risk Management Committee to this Policy.

IV. Financial Risk Management Committee

The Financial Risk Management Committee (the "Committee") shall be composed of the following: Director of Financing (Chair), Director of Enterprise Risk Management and Compliance (Vice-Chair), the General Counsel or the General Counsel's designee, the Comptroller or the Comptroller's designee, and the Risk Manager. The Committee shall:

A. meet at the call of the Chair or the Vice-Chair; and

B. annually meet to review this Policy and recommend any changes to this Policy to the Executive Director; and

C. annually meet to review the adequacy of the funding level of the Emergency Reserve Account and any other reserve accounts as established in this Policy; and

Figure D: CalHFA Hedge Policy – 2022

D. meet as required to review any procedures created by the Director of Financing pertaining to this Policy to ensure that the procedures are consistent with this Policy; and

E. meet as required to review any reports to be submitted to the Board of Directors as prepared by the Director of Financing as directed by this Policy.

The Committee may also retain and consult with legal, financial, and other investment professionals and advisors.

V. Emergency Reserve Account

A. The purpose of the Emergency Reserve Account is to fund:

1. Unforeseen expenditure for previous Board authorized obligations.
2. Fund necessary administrative and operating expenses for which funds may not otherwise be available.
3. Fund the payment of any obligations or commitments previously approved by the Board which are necessary to protect the credit ratings of the Agency and the security interests of the holders of the Agency's bonds, notes, or other debt instruments, including other financing instruments and obligations associated with the issuance of the Agency's bonds, notes, or other debt instruments.

B. The Executive Director has the authority to approve disbursements or otherwise encumber the Emergency Reserve Account for purposes listed in Section V.A.

1. The Executive Director may delegate this authority to the Chief Deputy Director, the Director of Financing, or the Comptroller.
2. The authority of the Director of Financing and the Comptroller shall be limited to $1,000,000.
3. Any disbursement or encumbrance of the Emergency Reserve Account shall be communicated to the Board in writing at the next regularly scheduled meeting of the Board.

C. The Emergency Reserve Account shall be funded by an amount equal to the Board approved operating budget of the following fiscal year, rounded to the nearest one million dollars ("Required ERA Amount"). The Director of Financing shall be responsible for the calculation of the Required ERA Amount.

D. No less than 25% of the Required ERA Amount shall be funded in cash. The Agency may fund the remaining Required ERA Amount with Eligible Securities as defined in the Investment and Debt Policy.

E. The Director of Financing shall, prior to the end of each fiscal year, and no later than each June 30th, instruct the Comptroller to deposit or withdraw cash or marketable securities, such that the assets in the Emergency Reserve Account are equal to the Required ERA Amount.

Figure D: CalHFA Hedge Policy – 2022

VI. Hedge Reserve Account

A. To the extent the Director of Financing determines the need to create a separate reserve account to manage cash-flows and/or other requirements related to the overall short-term or long-term hedging strategy, timing mismatch or other risks related to derivatives and other hedging instruments, such action shall be authorized upon the approval of the Financial Risk Management Committee.

VII. Financing Programs

A. Single-Family Programs

1. Recommendations to propose new risk mitigation strategies and/or update existing risk mitigation strategies, including but not limited to interest rate hedges discussed in Section VII, will be made based on the review and analysis of the (i) Single Family Reservation Pipeline consisting of loans previously purchased plus those loans for which a reservation has been received and is in an "active" (not cancelled, denied or other inactive status) status and not yet sold; and (ii) Quarterly portfolio review of the "Homeownership Loan Portfolio Delinquency, REO and Short sale Report".

2. Home Mortgage Programs (Bond issuance): All the mortgage loans purchased under the Agency's home mortgage programs will be insured either by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), a private mortgage guaranty insurance policy, or a combination thereof, covering a loss of upto 50%, 100% in the case of a FHA-insured loan, of the outstanding principal amount of the mortgage loans.

3. TBA (To Be Announced) Market Rate Program: Under the current TBA program, there is no balance sheet risk, as well as no credit or interest rate risk to the Agency. The Agency has agreement to sell on a mandatory delivery basis certain specified Agency mortgage pass-through securities, the repayment of which is guaranteed in full as to principal and interest by Fannie Mae or GNMA. The Director of Financing will review the hedging costs and target return for the Agency are built into the all-in rate provided by the Servicer (Lakeview). The Agency's revenue from this program thus comprises of program fee and gain on sale of the TBA market rate securities.

4. Portfolio Risk Management: To monitor the potential losses on individual loans in the portfolio, the Director of Financing (and the Fiscal Services) will receive quarterly reports computing the Probability of Default ("PD")

Figure D: CalHFA Hedge Policy – 2022

and Loan Loss ("LL") Reserve levels. The procedures for PD and LL reserve computations will be reviewed annually by the Committee.

B. Multifamily Programs

1. Recommendations to propose new risk mitigation strategies and/or update existing risk mitigation strategies, including but not limited to interest rate hedges discussed in Section VII, will be made based on the review and analysis of (i) Multi-family loan commitment pipeline; and (ii) Multifamily and Special Programs Delinquency and Loan Loss Allowances Quarterly report.

2. Further, as part of the overall risk mitigation strategy, the Director of Financing may recommend certain multi-family perm loan originations to qualify for the HUD-FHA Risk Share program and thereby be eligible to be insured under Sec. 542(c) Risk-sharing program. Risk Share apportionment through the Agency's participation in the program is HUD 50%/ CalHFA 50%.

3. Conduit Bond Issuance Program (including Securitization and Municipal Certificates issuance): For all transactions in which the Agency is the conduit issuer either to provide access to multi-family developers to the tax-exempt bond market or for securitization deals with other lenders, the Agency's financial risk is de minimis and limited only to the non-collection of fees and legal costs. Nonetheless, the Agency will develop procedures for assessing the inherent risks associated with conduit issuances including but not limited to, vetting the borrowers (sellers in case of municipal certificates), conflict of interests laws, CDLAC approval requirements, reputational risks associated with failure of the borrower to fulfill its obligations to the investors (bond payments, disclosure requirements, compliance issues).

4. Portfolio Risk Management: To monitor the potential losses on individual loans in the portfolio, the Director of Financing will receive quarterly reports computing the Multi-family Loan Loss allowances. The procedures for computations of loan loss allowances and the effectiveness of such will be reviewed annually by the Committee.

VIII. Interest Rate Hedges

A. Interest Rate Risk is the risk that rates committed to through the single-family loan reservation process, or the multifamily loan commitment process may rise, producing either losses in income or absolute losses.

B. The Agency may enter into interest rate swaps or other derivative products ("Hedges") to mitigate interest rate risk.

Figure D: CalHFA Hedge Policy – 2022

C. CalHFA has statutory authority to enter into Hedges.

D. CalHFA may amend, terminate, or enter into offsetting transactions to manage market, counterparty, credit, and other risks associated with its Hedges.

E. CalHFA shall not enter into Hedges where one or more of the following conditions exist:

1. The Hedge serves a purely speculative purpose, such as entering into a hedge for the sole purpose of trading gains, or create extraordinary leverage;

2. There is insufficient pricing data available to allow the Agency and its advisors to adequately value the hedge instrument.

F. Hedges shall comply with California statues, resolutions approved by the Board, federal tax law, and as appropriate, other indenture and contractual requirements.

G. The Agency's Executive Director, the Chief Deputy Director, and the Director of Financing are authorized to enter, amend, or terminate Hedges consistent with this Policy. In the absence of the Director of Financing, the Risk Manager shall be authorized to enter, amend, or terminate Hedges consistent with this Policy.

1. The Executive Director may delegate additional individuals that are authorized to enter, amend, or terminate Hedges consistent with this Policy.

H. The Director of Financing shall maintain records of all current Hedges, including, but not limited to ISDA Master Agreements, Credit Support Annexes, and confirms.

IX. Counterparty Requirements

The Agency may select a Swap Counterparty through either a competitive or negotiated process and will be done on a case-by-case basis. Nonetheless, the Agency will utilize the following standards in selecting counterparties for Hedges:

A. Credit Ratings

1. The Agency will enter into transactions only with counterparties whose obligations are rated in the "A" category or better from both Moody's Investors Service and Standard & Poor's Global Ratings.
2. In cases where the counterparty's obligations are rated based on a guarantee or specialized structure to achieve the required credit rating, the Agency shall thoroughly investigate the nature and legal structure of the guarantee or structure in order to determine that it meets the Agency's requirements in full.

Figure D: CalHFA Hedge Policy – 2022

B. Diversification of Counterparties

1. The Agency shall not enter into new Hedges with a Swap Counterparty with more than 33% of the aggregate notional amount of the Agency's Hedges, provided that the aggretate notional amount of the Agency's Hedges is greater than $300,000,000.
2. The Agency shall not enter into new Hedges with Swap Counterparty with more than 33% of the aggregate negative termination value of the Agency's Hedges, provided such aggregate negative termination value is greater than $30,000,000.

C. Collateral Thresholds

1. The Agency's threshold in the "Aaa/AAA", "Aa/AA", or "A" rating categories shall be infinity.
2. The Agency may require asymmetrical and lower threshold amounts for counterparty (or parent) collateral posting requirements.

D. Optional Termination

1. Counterparties shall not have the right to optionally terminate any Hedge.

X. Mitigation of Interest Rate Swap and Derivative Risk

Before entering into a new Hedge, the Director of Financing shall ensure that the risks, costs, and benefits are evaluated to make well-informed decisions for Hedge structuring. The following paragraphs describe risks and the identified strategy for mitigation, if appropriate:

A. Counterparty Risk

1. Defined as the risk that a counterparty will fail to make required payments or fullfill its obligations per the swap contract.
2. Counterparty risk is mitigated through the counterparty requirements in Section IX.

B. Hedge Mismatch Risk

1. Defined as the risk that the settlement payment on the hedge fails to offset the change in the actual cost of the deferred debt financing.
2. To mitigate this risk, the Agency shall review the efficiency of potential indices prior to entering into any new Hedge.

C. Market Risk

1. General market risk may occur because the Hedge market has suffered a loss of liquidity or collapsed, making it difficult or impossible to obtain a replacement hedge.

Figure D: CalHFA Hedge Policy – 2022

a) Market access risk is the risk that following an early termination, the Agency will not be able to obtain a replacement Hedge because its credit has deteriorated, or it is shut out of the market for other Agency-specific reasons.

b) To mitigate this risk, the Agency will not allow optional termination of its Hedges from any counterparty. The Agency shall also monitor counterparty ratings and seek to novate any Hedges prior to any credit-related termination event.

D. Non-Delivery Risk/Fallout Risk

1. Defined as the risk that the committed loans are not delivered thus the Hedges effectively become an investment.
2. To mitigate this risk, the Agency has breakage penalties to be applied on multifamily commitments.

E. Notional Amount Mismatch Risk

1. Defined as the risk that the size of a commitment at financial close differs from the size of the commitment at rate-lock.
2. To mitigate this risk, there are permitted adjustment limits of 7% of loan value for multifamily commitments. Any deviation beyond 7% will require approval by the Board.

F. Termination Risk

1. Defined as the risk that due to some event or exercise of a right the Hedge may terminate or be terminated prior to its scheduled expiration.
2. To mitigate this risk, the Agency will monitor its termination exposure for all existing and proposed Swaps at market value (and under adverse economic conditions, if/as required). Further, the agency will not enter into any Hedge that can terminate at the counterparty's option.

G. Rollover Risk

1. Defined as the risk that loan extensions or early closings leave the loan commitment under-hedged or over-hedged.
2. To mitigate this risk, the Agency shall include extension fees that at a minimum offset any costs of extending a Hedge.

XI. Pre-2014 Interest Rate Swaps

A. This section applies only to interest rate swaps entered into prior to May 2014 "Pre-2014 Swaps".

1. Pre-2014 Swaps are fixed-payor swaps that were integrated with variable rate bonds issued by the Agency or are "basis swaps" that were used to change the underlying index or variable rate risk of the fixed-payor swap.

Figure D: CalHFA Hedge Policy – 2022

2. All integrated variable rate bonds have been redeemed or refinanced.
3. Fixed-payor Pre-2014 Swaps are currently liabilities of the Agency.

B. The Agency's Executive Director, the Chief Deputy Director, and the Director of Financing are authorized to amend or terminate Pre-2014 Swaps consistent with this Policy. In the absence of the Director of Financing, the Risk Manager shall be authorized to amend or terminate Pre-2014 consistent with this Policy.

C. The Agency shall exercise its right to optionally terminate an interest rate swap if the swap has a negative mark-to-market.

D. The Director of Financing shall use reasonable efforts to reduce the amount of collateral posted by the Agency, including, but not limited to amending existing ISDA agreements.

E. By March 31 of every year, the Director of Financing shall prepare an estimate of the net interest rate swap payments to be made directly by any of the Agency's funds for the following fiscal year.

XII. Board Reports

A. The Director of Financing shall prepare and provide a written report on a semi-annual basis to the Board including:

1. A summary of outstanding interest rate swaps and their counterparties;
2. The mark-to-market value (termination value) of all interest rate swaps, as measured by the economic cost or benefit of terminating outstanding contracts as of a designated valuation date;
3. The mark-to-market value (termination value) that the Agency has to each specific counterparty, as measured by aggregate mark-to-market value, netted for offsetting transactions;
4. The credit ratings of each counterparty (or guarantor, if applicable) and any changes in the credit rating since the last reporting period;
5. Any collateral posting as a result of ISDA or other agreements; and
6. A summary of risks involved with Hedges or interest rate swaps.

XIII. Financial Reporting

A. The Agency will present the use of derivatives on its financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

XIV. Policy Administration

A. The Director of Financing is the designated administrator of this Policy.

B. The Director of Financing shall create procedures consistent with this Policy. Procedures shall include:

Figure D: CalHFA Hedge Policy – 2022

1. Methods of evaluating hedging strategies for potential reduction in risk to the Agency
2. Methods of evaluating risks and mitigation described in Section X of this Policy
3. Evaluation of potential impact of any Hedge on the Agency's credit ratings
4. Evaluation of potential impact of any Hedge on the Agency's finances or financial flexibility, including but not limited to letters of credit and bond insurance
5. Method of selecting Hedge counterparty
6. Notification requirements prior to the entrance, amendment, or termination of any Hedge or Pre-2014 Swap. Such notices shall include the Chief Deputy Director and the Committee.
7. The Director of Financing shall prepare, on a quarterly basis, a cost-benefit analysis of terminating Pre-2014 Swaps

C. The Director of Financing shall submit all changes in procedures to the Committee for review.

Figure E: CalHFA Investment Policy – 2022

CALIFORNIA HOUSING FINANCE AGENCY

Investment and Debt Management Policy
Dated: March 14, 2012
Amended and Restated: April 21, 2022

I. Purpose

The purpose of this Investment Policy (the "Policy") is to preserve and strengthen the California Housing Finance Agency's ("CalHFA" or the "Agency") financial capacity through safeguarding financial assets, maintaining access to diverse sources of capital, and leveraging available capital.

The Agency seeks to broaden the Investment Policy to include debt management and to clarify the scope of the Policy. This Policy amends and restates the Investment Policy dated March 14, 2012, as amended.

II. Board of Directors

The Board of Directors (the "Board") shall receive written notice of changes to this Policy and reports as detailed herein. The Board retains sole authority to change Section II of this Policy.

III. Executive Director

The Executive Director shall be responsible for overseeing this Policy and approving any changes recommended by the Investment and Debt Management Committee to this Policy. The Executive Director may designate the Chief Deputy Director to approve changes recommended by the Investment and Debt Management Committee to this Policy.

IV. Investment and Debt Management Committee

The Investment and Debt Management Committee (the "Committee") shall be composed of the following: Director of Financing (Chair), the Comptroller (Vice-Chair), the General Counsel or the General Counsel's designee, the Director of Enterprise Risk Management, and the Risk Manager. The Committee shall:

A. meet at the call of the Chair or the Vice-Chair; and

B. annually meet to review this Policy and recommend any changes to this Policy to the Executive Director; and

C. meet as required to review any procedures or internal controls created by the Director of Financing or the Comptroller pertaining to this Policy to ensure that the procedures are consistent with this Policy; and

D. meet as required to review any reports to be submitted to the Board as prepared by the Director of Financing as directed by this Policy.

The Committee may also retain and consult with legal, financial, and other investment professionals and advisors.

Figure E: CalHFA Investment Policy – 2022

V. Ethics and Conflicts of Interest

The Executive Director, Chief Deputy Director, Director of Financing, Comptroller, other members of the Investment and Debt Management Committee, other Agency employees involved with investments or debt management at the Agency, investment advisors and trustees involved in funds management operations shall operate in a manner that is consistent with applicable conflict of interest and incompatible activity laws of the State. They shall refrain from personal business activities that could conflict with the proper execution of the Agency's investment or debt management program, or which could impair their ability to make impartial decisions, advise on investment or debt issuance decisions, or perform investment or debt management activities impartially, as applicable.

VI. Objectives and Scope

This Policy covers investments as listed below:

A. Agency Funds

California Government Code §53600.5 establishes investment objectives for local agencies. The Agency is not a local agency under the Government Code but intends to align this Policy with the provisions in California Government Code §53600.5. The Agency's investment objectives, in the following priority order, shall be:

1. Safety of Principal: When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective shall be to safeguard the principal of funds under its control.

2. Liquidity: The Agency's investments shall meet its liquidity needs as reasonably anticipated.

3. Return on Investment: The Agency seeks to optimize the yield on its investments.

B. Exclusions from Policy

1. The Policy does not apply to interest rate swaps as defined as Hedges or Pre-2014 Swaps as defined in the Agency's Financial Risk Management Policy.

2. This Policy does not apply to funds and accounts established under the Agency's Multifamily Conduit Bond program. The Agency has no responsibility for investments in these funds and accounts.

3. This Policy does not apply to funds and accounts relating to any collateral posted by the Agency for Hedges or Pre-2014 Swaps, nor collateral posted as required to use Lines of Credit or Credit Facilities as described in Section XXII.

Figure E: CalHFA Investment Policy – 2022

VII. Investment Standard of Care

California Government Code §53600.3 establishes investment objectives for local agencies. The Agency is not a local agency under the California Government Code but intends to align this Policy with the provisions in California Government Code §53600.3.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, persons authorized to make investment decisions on behalf of the Agency shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

VIII. Investment Authority

The Agency has authority to invest funds in accordance with California Health and Safety Code §51003.

IX. Divestment

The Agency shall comply with State and Federal divestment directions.

X. Investment Management and Investment Operations

A. Investment Management: The Director of Financing has the authority to manage the Agency's investments in accordance with this Policy and within the authority of California Health and Safety Code §50912.

B. Investment Operations: The trustees under the bond resolutions along with the Comptroller are responsible for the execution of the Agency's investment decisions and for the safekeeping of investment securities.

XI. Permitted Investments for Agency Funds (excluding Bond Indentures)

A. Single family and multifamily mortgage loans as part of the Agency's goal of supporting its core mission-based affordable housing program portfolio growth. Investments in such mortgage loans shall be based on the credit analysis and impact on the Agency's issuer credit rating and credit ratings of the respective indentures of trust.

B. Surplus Money Investment Fund ("SMIF"): The Comptroller may direct the State Treasurer's Office ("STO") to deposit funds in the State Treasury to be invested in SMIF.

Figure E: CalHFA Investment Policy – 2022

C. Eligible Securities: The Comptroller may direct the STO or a registered broker-dealer for fixed-income securities to invest funds that are not required for its current needs in the following Eligible Securities:

1. Treasury notes, treasury bills or treasury bonds

2. Mortgage-backed securities guaranteed by the Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA") or Federal Home Loan Mortgage Corporation ("FHLMC")

3. U.S. Bank open commercial paper program

4. Any other securities as described in the California Government Code §16430

D. State of California Approved Depository Bank Accounts and Money Market Funds ("MMF"): The Comptroller may deposit or direct the STO to deposit funds in State approved depository bank accounts or MMF outside the State's Centralized Treasury System ("CTS") if:

1. the depository bank deposits, with the STO, collateral in excess of 110 percent of the deposit (in accordance with California Government Code §16521); and

2. the funds are deposited (intraday) for administrative efficiencies that are not available through the CTS.

XII. Permitted Investments for Agency Funds (Bond Indentures & Bond Proceeds)

Bond Proceeds shall be invested in accordance with the provisions of each indenture of trust and supplemental indentures. Attached as Exhibits to this Policy are the provisions for the following bond indentures:

A. Home Mortgage Revenue Bonds (Exhibit 1)

B. Multifamily Housing Revenue Bonds III (Exhibit 2)

C. Multifamily Housing Revenue Bonds (Exhibit 3)

D. Special Obligation Multifamily Housing Revenue Bonds (Exhibit 4)

XIII. Internal Controls

The Comptroller shall establish a system of procedures and internal controls. The internal control structure shall be designed to ensure that the assets of the Agency are protected from loss, theft, or misuse and to provide reasonable assurance that these objectives are met. Internal controls shall address the following issues:

A. Clear delegation of authority to staff members

Figure E: CalHFA Investment Policy – 2022

B. Separation of transaction authority from financial reporting

C. Authorizations of wire transfers

D. Written confirmation of transactions for investments and wire transfers

E. Timely reconciliation of transactions

F. Avoidance of physical delivery of securities

G. Control of collusion

XIV. Safekeeping and Custody of Securities

A. Third Party Safekeeping: Securities will be held by an independent third-party trustee or other custodial arrangement. All securities will be held by the third party in the Agency's name.

B. Delivery versus Payment: All trades of securities will be cleared and settled on a delivery versus payment basis to ensure that securities are deposited with the third-party trustee prior to the release of funds.

XV. Collateral Posting Requirement

The Agency has established demand accounts with one of the State of California's approved depository banks. The depository bank is required to deposit, with the STO, collateral in excess of 110 percent of the deposit (California Government Code §16521).

DEBT ISSUANCE AND MANAGEMENT

XVI. Debt Issuance Authority

The Agency has authority to issue bonds, including refunding bonds, and incur other indebtedness in accordance with California Health and Safety Code §51350.

XVII. Debt Limit

As of January 1, 2022, the California Health and Safety Code §51350 established the statutory limit of total debt outstanding for the Agency as $13,150,000,000.

XVIII. Debt Issuance Objectives

The Agency shall issue debt to:

A. Finance multi-family and single-family loans in accordance with the California Health and Safety Code

1. §51350 to provide sufficient funds for financing housing developments

Figure E: CalHFA Investment Policy – 2022

and other residential structures;

2. §51065.5 To make unsecured loans or loans secured by assets other than real property to local public entities;

3. §51365 Any other purposes of the Agency.

B. Debt proceeds may also be used to fund reserves as created by indentures of trust and to pay associated costs of issuance from the debt issuance.

XIX. Issuance of Bonds or other Securities

A. The Agency shall retain outside experts as needed, including, but not limited to:

1. Bond Counsel in accordance with California Health and Safety Code §50911(c);
2. Disclosure Counsel;
3. Investment banking firms, qualified to do business with the State of California as evidenced by inclusion in the State Treasurer's Office Underwriter Pool;
4. Arbitrage calculation agents;

B. The Agency shall conduct a competitive process to qualify investment banking firms to publicly sell or privately place the Agency's debt issuances.

C. The Agency shall monitor outstanding debt for refinancing opportunities.

1. The Agency shall consider a refunding transaction if the refunding will provide a 4.0% or greater net present value savings to the Agency.
2. The Executive Director may approve any refunding or restructuring to meet organizational or strategic needs at the Executive Director's sole discretion.

D. The maximum term of debt shall not exceed the underlying loan term or loan amortization.

E. The Agency's bonds shall be structured with 10-year par call options or shorter, and extraordinary call provisions for default or prepayment of underlying loans. Pass-through bonds are not subject to this call option requirement.

F. The Agency shall not issue variable rate demand bonds or enter into any derivative products related to variable rate demand bonds without the prior written approval of the Executive Director.

G. The Agency shall maintain ratings with Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P) on its outstanding bonds. The Director of Financing may waive this requirement if there is no material impact to the potential pricing of the public bond.

Figure E: CalHFA Investment Policy – 2022

H. Credit enhancement, such as bond insurance, will only be used when the anticipated present value savings in terms of reduced interest expense exceeds the cost of the enhancement.

XX. Annual Financing Resolutions

A. The Director of Financing shall annually submit one or more resolution(s) to the Board seeking approval for the issuance of bonds or other debt instruments.

B. The Director of Financing shall annually submit one or more resolution(s) to the Board seeking approval for the Agency to apply for volume cap from the California Debt Limit Allocation Committee

XXI. Compliance

A. The Comptroller shall create and maintain procedures and internal controls associated with outstanding debt, including but not limited to:

1. Debt Service Payments
2. Arbitrage Compliance

B. The Director of Financing shall create and maintain procedures for continuing disclosure as provided in the Agency's Disclosure Policy.

XXII. Line of Credit and Credit Facilities

A. The Agency shall have the authority to borrow money by means of a secured credit facility from a financial institution as necessary, as determined by the Executive Director, to provide sufficient funds to finance its lending programs.

B. The Executive Director, the Chief Deputy Director, the Director of Financing, or any other person specifically authorized in writing by the Executive Director, shall be authorized to execute, for and on behalf of the Agency, such credit facility agreements and other documents necessary to enter into, effectuate and administer a secured credit facility with a financial institution. Such agreements and documents include but are not limited to: Settlement/Transaction Account Agreement, a Safekeeping Agreement; an Advances and Security Agreement; and a Certificate of Designated Persons – Wire Transfer Services.

XXIII. Board Reports

A. The Director of Financing will prepare and provide a written report on an annual basis to the Board including:

1. A summary of the dollar amount invested in each type of investment.
2. A summary of securities by type of security showing the par value, market value, weighted average coupon and weighted average remaining maturity of the securities.

Figure E: CalHFA Investment Policy – 2022

A. The Director of Financing shall prepare and provide a written report after each debt financing to the Board that includes:

1. A summary of the amount of debt issued, use of proceeds, interest costs, and costs of issuance.

Figure E: CalHFA Investment Policy – 2022

EXHIBIT 1

California Housing Finance Agency
General Indenture Relating to Home Mortgage Revenue Bonds

"Investment Securities" means any of the following which at the time are lawful investments under the laws of the State including the Act for the moneys held under the Indenture then proposed to be invested therein:

(i) direct general obligations of the United States of America, or obligations the payment of the principal of and interest on which is unconditionally guaranteed by the United States of America or any federal agency of the United States of America or the State;

(ii) bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by Federal Intermediate Credit Banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and Banks for Cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, bonds, debentures and other obligations of the Federal National Mortgage Association or of the Government National Mortgage Association, established under the National Housing Act, as amended, bonds of any Federal Home Loan Bank established under said act, bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended;

(iii) the portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;

(iv) bonds, debentures, and notes issued by corporations organized and operating within the United States of America and within the top two ratings of a nationally recognized rating service;

(v) negotiable certificates of deposit issued by a nationally or state-chartered bank or savings and loan association which, to the extent they are not insured by Federal deposit insurance, are collateralized by securities eligible to secure public deposits in the State, or which are issued by such an institution rated within the top two ratings of a nationally recognized rating service;

(vi) interest bearing accounts in State or national banks or other financial institutions which, to the extent they are not insured by federal deposit insurance, are collateralized by securities eligible to secure public deposits in the State, or which are issued by such an institution rated within the top two ratings by a nationally recognized rating service, provided that the amounts of such deposits shall not be based on the relative participation of the different types of financial institutions as qualified mortgage lenders under the Act; or

(vii) deposits in the Surplus Money Investment Fund referred to in Section 51002 of the Act.

Figure E: CalHFA Investment Policy – 2022

EXHIBIT 2

California Housing Finance Agency
General Indenture Relating to Multifamily Housing Revenue Bonds III

"Investment Obligation" means any of the following which at the time are lawful investments under the laws of the State for the moneys held hereunder then proposed to be invested therein:

(1) direct general obligations of the United States of America or of the State, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America, any federal agency of the United States of America, or the State;

(2) bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by Federal Land Banks or Federal Intermediate Credit Banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and Banks for Cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, stock, bonds, debentures and other obligations of Fannie Mae or of the Government National Mortgage Association, established under the National Housing Act, as amended, bonds of any Federal Home Loan Bank established under said act, bonds, debentures and other obligations of the Federal Home Loan Mortgage Corporation guaranteeing timely payment of principal and interest, bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended, except, in each case, securities evidencing ownership interests in specified portions of the interest on or principal of such obligations;

(3) commercial paper rated within the highest three Rating Categories of each Rating Agency and issued by corporations (a) organized and operating within the United States; and (b) having total assets in excess of five hundred million dollars ($500,000,000);

(4) bills of exchange or time drafts drawn on and accepted by a commercial bank the general obligations of which are rated within the highest three Rating Categories by each Rating Agency, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System, and negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association which are insured by federal deposit insurance, or which are issued by an institution the general obligations of which are rated within the highest three Rating Categories by each Rating Agency;

(5) bonds, debentures, and notes issued by corporations organized and operating within the United States and rated within the highest three Rating Categories by each Rating Agency;

(6) repurchase agreements or reverse repurchase agreements, with nationally recognized broker-dealers which are agreements for the purchase or sale of Investment Obligations pursuant to which the seller or buyer agrees to repurchase or sell back such securities on or before a specified date and for a specified amount, which seller or buyer has outstanding long-term indebtedness which are rated within the highest three Rating Categories by each Rating Agency;

(7) investment agreements with corporations, financial institutions or national associations within the United States the general obligations of which (or, if payment of such investment agreement is guaranteed, the general obligations of the guarantor) are rated

Figure E: CalHFA Investment Policy – 2022

within the highest three Rating Categories by each Rating Agency;

(8) interest bearing accounts in State or national banks or other financial institutions having principal offices in the State (including those of the Trustee or its affiliates) which, to the extent they are not insured by federal deposit insurance, are issued by an institution the general obligations of which are rated within the highest three Rating Categories by each Rating Agency;

(9) interests in any short term investment fund (including those of the Trustee or its affiliates) restricted to investment in obligations described in any of clauses (1) through (5) of this definition, which are rated within the highest three Rating Categories by each Rating Agency;

(10) deposits in the Surplus Money Investment Fund referred to in Section 51003 of the Act; or

(11) other investment securities which will not cause any Unenhanced Rating on any Bonds to be reduced or withdrawn.

Figure E: CalHFA Investment Policy – 2022

EXHIBIT 3

California Housing Finance Agency
Trust Indenture Relating to Multifamily Housing Revenue Bonds

"Investment Obligation" means includes any of the following securities and other investments (other than Program Securities), if and to the extent the same are at the time legal for the investment of the Agency's moneys" means

(a) Direct obligations of, or obligations the timely payment of principal and interest on which are insured or guaranteed the United States of America, which obligations include, but are not limited to, the following" means (i) United States Treasury obligations which are direct or fully guaranteed obligations, and (ii) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by Government National Mortgage Association ("GNMA");
(b) Obligations (i) which are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not impair the Rating of any Outstanding Bonds;
(c) Federal Home Loan Mortgage Corporation participation certificates guaranteed by Freddie Mac as to timely payment of principal and interest and senior debt obligations;
(d) Fannie Mae's mortgage-backed securities and senior debt obligations, excluding interest-only stripped securities;
(e) Interest bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including any Fiduciary) whose outstanding unsecured short-term debt obligations are rated by Moody's not less than P1 (or such comparable rating from each Rating Agency then providing a rating on the Bonds), provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such Depository has combined capital and surplus of at least $75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not impair the Rating of any Outstanding Bonds, or (iii) the deposit of funds with such Depository will not impair the Rating of any Outstanding Bonds;
(f) Any repurchase agreement and reverse repurchase agreement with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreement is secured by obligations described in the preceding clauses (a) and (b) of this definition, as long as such agreement, as of the date of its execution and delivery, does not impair the Rating of any Outstanding Bonds;
(g) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in subparagraphs (a),

Figure E: CalHFA Investment Policy – 2022

(b) or (f) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least $75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in subparagraphs (a), (b) or (f) above and, in the case of both (i) and (ii), which are rated not less than Aaa by Moody's (or such comparable rating from each Rating Agency then providing a Rating on the Bonds);

(h) Any investment contract with any provider as long as such investment contract, as of the date of its execution and delivery, does not impair the Rating of any Outstanding Bonds; and

(i) Any other investment that as of the date does not impair the Rating of any Outstanding Bonds.

Figure E: CalHFA Investment Policy – 2022

EXHIBIT 4

California Housing Finance Agency
Trust Indenture Relating to Special Obligation Multifamily Housing Revenue Bonds

"Investment Obligation" means includes any of the following securities and other investments (other than Program Securities), if and to the extent the same are at the time legal for the investment of the Agency's moneys" means
(a) Direct obligations of, or obligations the timely payment of principal and interest on which are insured or guaranteed by, the United States of America, which obligations include, but are not limited to, the following" means (i) United States Treasury obligations which are direct or fully guaranteed obligations, and (ii) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by Government National Mortgage Association ("GNMA");

(b) Obligations (i) which are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not impair the Rating of any Outstanding Bonds;

(c) Federal Home Loan Mortgage Corporation participation certificates guaranteed by Freddie Mac as to timely payment of principal and interest and senior debt obligations;

(d) Fannie Mae's mortgage-backed securities and senior debt obligations, excluding interest-only stripped securities;

(e) Interest bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including any Fiduciary) whose outstanding unsecured short-term debt obligations are rated by Moody's not less than P1 (or such comparable rating from each Rating Agency then providing a rating on the Bonds). provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such Depository has combined capital and surplus of at least $75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not impair the Rating of any Outstanding Bonds, or (iii) the deposit of funds with such Depository will not impair the Rating of any Outstanding Bonds;

(f) Any repurchase agreement and reverse repurchase agreement with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreement is secured by obligations described in the preceding clauses (a) and (b) of this definition, as long as such agreement, as of the date of

Figure E: CalHFA Investment Policy – 2022

its execution and delivery, does not impair the Rating of any Outstanding Bonds;

(g) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in subparagraphs (a), (b) or (f) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least $75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in subparagraphs (a), (b) or (f) above and, in the case of both (i) and (ii), which are rated not less than Aaa by Moody's (or such comparable rating from each Rating Agency then providing a Rating on the Bonds);

(h) Any investment contract with any provider as long as such investment contract, as of the date of its execution and delivery, does not impair the Rating of any Outstanding Bonds; and

(j) Any other investment that as of the date made does not impair the Rating of any Outstanding Bonds.

Figure F: CalHFA Disclosure Policy – 2022

CALIFORNIA HOUSING FINANCE AGENCY

Disclosure Policy
Dated: October 22, 2014
Amended and Restated: April 21, 2022

I. Purpose

The purpose of this Disclosure Policy (the "Policy") is to provide guidelines for the disclosure of financial and operating information to the public by the California Housing Finance Agency's ("CalHFA" or the "Agency"), including the information required to satisfy the contractual obligations under the Agency's continuing disclosure agreements and federal and state securities regulations with respect to outstanding bonds.

II. Board of Directors

The Board of Directors (the "Board") shall receive written notice of changes to this Policy and reports as detailed herein. The Board retains sole authority to change Section II of this Policy.

III. Executive Director

The Executive Director shall be responsible for overseeing this Policy and approving any changes recommended by the Disclosure Oversight Committee to this Policy. The Executive Director may designate the Chief Deputy Director to approve changes recommended by the Disclosure Oversight Committee to this Policy.

IV. Disclosure Oversight Committee

The Disclosure Oversight Committee (the "Committee") shall be composed of the following: Director of Financing (Chair), the Comptroller (Vice-Chair), Director of Enterprise Risk Management and Compliance or the Director of Enterprise Risk Management and Compliance's designee, the General Counsel or the General Counsel's designee, the Director of Homeownership Programs or the Director of Homeownership Programs' designee, the Director of Multifamily Programs or the Director of Multifamily Programs' designee, and the Risk Manager. The Committee shall:

A. meet at the call of the Chair or the Vice-Chair; and

B. annually meet to review this Policy, evaluate the efficacy of the procedures established under the policy in satisfying the Policy's objectives, and recommend any changes to this Policy to the Executive Director; and

C. Review of reportable/material events occurred during the year and action taken thereof; and

D. meet as required to review any procedures created by the Director of Financing pertaining to this Policy to ensure that the procedures are consistent with this Policy.

Figure F: CalHFA Disclosure Policy – 2022

The Committee may also retain and consult with legal, financial, and other investment professionals and advisors.

V. **Scope**

A. This Policy does not apply to the Agency's Multifamily Conduit Bond program.

VI. **Issuance of Publicly Offered Bonds or Securities**

A. The Agency's Finance Team shall include the Committee and other Agency staff as determined by the Director of Financing.

B. The Director of Financing or the Director of Financing's designee shall develop a schedule for any public offering of bonds or securities that allows the Agency's Finance Team sufficient time for review of financial and operating information contained within any offering document.

C. The Agency shall retain legal and financial professionals as necessary and appropriate to assist with the review of financial and operating information contained within any offering document.

D. The Executive Director and Chief Deputy Director shall be given not less than seven (7) calendar days to review and approve of a preliminary official statement prior to posting.

VII. **Municipal Securities Rulemaking Board**

A. The Director of Financing shall maintain an issuer account for the Agency with the Electronic Municipal Market Access ("EMMA") website as created by the Municipal Securities Rulemaking Board ("MSRB").

B. All staff in the Financing Division of the Agency shall maintain accounts with EMMA.

VIII. **Continuing Disclosure Agreements ("CDAs")**

A. The Agency has executed master continuing disclosure agreements with trustees relating to its trust indentures in accordance with the provisions of the Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934 (the "Rule"). The form of such continuing disclosure agreements may be modified to the extent necessary to conform to changes in the Rule. The Agency has agreed to make publicly available certain financial information and operating data as well as the Agency's annual audited financial statements. The Agency shall file the required information by due dates as specified by indenture as listed.

Figure F: CalHFA Disclosure Policy – 2022

B. The Director of Financing shall be responsible for the creation and maintenance of procedures to ensure that the Agency retains a list of current outstanding bonds with corresponding CUSIP numbers, subject to any CDA.

C. The Director of Financing shall be responsible for the creation and maintenance of procedures to track required information to be filed under each CDA.

D. The Agency may retain a third-party dissemination agent to assist with the preparation or filing of any information.

IX. **CDAs - Annual Disclosure Reports**

A. The Director of Financing shall be responsible for the creation of procedures to ensure the accurate and timely filing of annual reports in the appropriate format required by law or applicable regulation, notice of its failure to provide annual information with respect to itself by a certain due date, relating to each of the Agency's outstanding CDAs.

1. The Director of Homeownership Programs, the Director of Multifamily Programs, and the Comptroller shall designate staff as necessary for completion of annual reports.

B. The Director of Financing shall be responsible for retaining the documentation of all annual disclosure filings to EMMA in accordance with the Agency's document retention policy.

C. The Agency reserves the right to modify, from time to time, the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgement of the Agency, provided that any modification will be done in a manner consistent with the Rule.

X. **CDAs - Event Notices**

A. The Director of Financing shall be responsible for the creation of procedures to ensure the accurate and timely filing of event notices relating to each of the Agency's CDAs. Procedures shall include the following:

1. Maintaining a list of events of which the Issuer is required to provide notice to the MSRB pursuant to CDA and certificates.

2. Regular circulation of a questionnaire to key management staff regarding the knowledge of information subject to event notices.

3. Weekly monitoring of rating changes for the Agency's bonds, bond insurers, swap counterparties, if appropriate.

Figure F: CalHFA Disclosure Policy – 2022

4. Procedures to determine the materiality of the reported events and subsequent event notices to filed with the MSRB as well as rating changes to be reported through EMMA in a timely manner.

XI. **Major Obligated Borrower**

A. A Major Obligated Borrower is a borrower whose loan or loans have an aggregate outstanding principal balance which equals or exceeds twenty percent (20%) of the aggregate outstanding principal balance of all the loans pledged under any individual indenture

B. The Agency shall file with EMMA, on an annual basis, not later than 180 days after the end of the fiscal year the related Development or Developments of a Major Obligated Borrower, certain financial and operating data, including (a) if produced in the usual course of business, audited financial statements for the immediately preceding fiscal year prepared in accordance with GAAP, or, if not so produced in the usual course of business, unaudited financial statements for the immediately preceding fiscal year prepared in accordance with GAAP and (b) levels of occupancy (collectively, the "Major Obligated Borrower Annual Disclosure"). If the Agency has not received such Major Obligated Borrower Annual disclosure by the required date, the Agency shall, in a timely manner, file a notice with the MSRB of the failure of such Major Obligated Borrower to file such information with the Agency.

XII. **Public Statements**

A. The Director of Marketing and Communications and the Director of Financing shall ensure that statements or releases of information relating to the Agency's finances are accurate and not materially misleading from such sources as:

1. The Agency's website
2. Agency Press Releases

XIII. **Annual Debt Transparency Report**

A. The Agency is required to file an Annual Debt Transparency Report ("ADTR") with the California Debt and Investment Advisory Commission ("CDIAC") by January 31 of every year for bonds issued since January 31, 2017.

B. The Director of Financing shall be responsible for the creation and maintenance of procedures to ensure accurate and timely filings of ADTRs with CDIAC.

XIV. **Comprehensive Annual Financial Report**

A. Prior to the completion of the Agency's annual audit, the Comptroller shall submit the draft Management Discussion and Analysis and footnotes to the following individuals for approval:

Figure F: CalHFA Disclosure Policy – 2022

1. Executive Director
2. Chief Deputy Director
3. General Counsel
4. Director of Financing
5. Risk Manager

XV. **Investor Relations Website**

A. The Agency shall maintain financial information on its website including, but not limited to:

1. The Agency's Annual Report
2. Audited Financial Statements for both the California Housing Finance Fund and the California Housing Loan Insurance Fund
3. Unaudited Interim Financial Statements for both the California Housing Finance Fund and the California Housing Loan Insurance Fund
4. Bonds Outstanding
5. Bond Redemption History
6. Composition of Bond Portfolio
7. Delinquency, REO and Loss Reports
8. Investment Reports
9. Mortgage Loan Information
10. Swap Agreement Portfolio Information
11. Mortgage-Backed Securities Information
12. Information on accessing official statements on EMMA

XVI. **Annual Disclosure Training**

A. The Director of Financing shall schedule annual training for all staff in the Financing Division and any Agency Staff responsible for the collection of information in any of the Agency's CDAs covering:

1. This Policy
2. Rule 15c2-12, and material events required to be reported
3. Agency's obligations under federal and state laws
4. Individual role and responsibilities as assigned

B. The Director of Financing shall schedule annual training for the Executive Director, Chief Deputy Director, and members of the Committee to review:

1. This Policy
2. Agency's obligations under federal and state laws