

# Bond Strategy is a Financial Win-Win for CalHFA and its Borrowers

**California Housing Finance Agency**  
Management Innovation: Financial

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## **BOND STRATEGY IS A FINANCIAL WIN-WIN FOR CALHFA AND ITS BORROWERS**

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### **Background**

The California Housing Finance Agency (CalHFA) serves as the State's affordable housing lender by providing down payment assistance and access to first mortgages for first-time homebuyers as well as mortgages and subsidy loans for the construction and preservation of affordable multifamily rental housing.

CalHFA was deeply impacted by the Great Recession in 2008, which resulted in the execution of a deleveraging plan. CalHFA's last issuance of single family mortgage revenue bonds was in 2011 and CalHFA's last issuance of parity multifamily revenue bonds was in 2014 to finance its lending programs. CalHFA successfully redeemed all outstanding bonds in 2022. As a result of the plan, CalHFA became reliant upon the TBA market to finance single family programs and HUD's FFB program to finance its multifamily programs. This presented an acute strategic challenge in that CalHFA was limited to a single source of funding for each of its core programs.

To address this challenge, CalHFA executed a strategy to develop two new indentures in parallel. The strategy not only diversified the funding for CalHFA's two main lines of business, but also provided funding for a new homeownership program, MyAccess ([FIGURE 1](#)), and resulted in the financing of several of CalHFA's multifamily permanent loan commitments at the lowest spread of the more than 180 tax-exempt HFA bond issuances in 2024.

### **Financing Team – Structured for Success**

By successfully redeeming all outstanding bonds, CalHFA had an extremely rare opportunity to design and execute a new long-term bond strategy that encompasses both multifamily revenue bonds and mortgage revenue bonds for single family programs. CalHFA kicked off that long-term strategy in 2022 with the issuance of an RFQ for underwriters.

CalHFA strategically assigned financing teams to encourage synergies in the development of both indentures. For the multifamily indenture, CalHFA internal staff worked with bond counsel Orrick Herrington & Sutcliffe, senior manager Morgan Stanley ([FIGURE 2](#)) and co-senior manager RBC Capital Markets. On the single family bonds, RBC Capital Markets was the senior manager, with Morgan Stanley as co-senior manager, and Hawkins Delafield & Wood serving as bond counsel. Kutak Rock served as underwriter's counsel on both transactions.

Internally, the Agency's Investment and Debt Management Committee managed the transactions including the production of the disclosure documents and the indentures.

By statute, the California State Treasurer's Office serves as agent of sale for CalHFA's bonds. This, combined with the internal CalHFA team's experience of structuring and pricing bonds, meant that no additional consultants related pricing or structuring service were required.

### **Key Features for Internal Efficiency**

The financing team worked to structure the Affordable Housing Revenue Bonds (AHRB) for multifamily programs and Homeownership Mortgage Revenue Bonds (HOMR) to achieve internal efficiency and to ensure that CalHFA reduced its risk in terms of its debt profile in the following ways:

- The new AHRB indenture removed CalHFA's pledge of its general fund as credit support for its multifamily bonds and still achieved the same rating as CalHFA's issuer credit.
- Both the AHRB and HOMR indentures created special restricted and unrestricted reserve funds, with similar permitted investments. This structure allows CalHFA additional flexibility in structuring bond financings.
- Establishment of reserve funds allowed for simpler mechanics for substitution of assets in the case of AHRB for prepayment of loans and the initial seeding of capital for both AHRB and HOMR.
- AHRB used existing Agency low coupon single-family mortgage backed securities for a debt service reserve fund, rather than cash.
- CalHFA established streamlined and consistent mechanics for disbursement of interest earnings.
- CalHFA's creation of parallel disclosure documents allowed for efficient use of staff time in updating disclosure documentation and responding to questions during the due diligence process.

### **Impact - Achieving Both Homebuyer Savings and Financial Sustainability for CalHFA**

The AHRB and HOMR indentures were structured to provide efficient use of CalHFA's staff time and effort. More importantly, the true impact of these new indentures was to create additional long-term financing vehicles to support CalHFA in achieving its mission to "invest in diverse communities with financing programs that help more Californians find a place to call home."

### **Multifamily Programs - AHRB Issuance**

The Agency's 2024A Affordable Housing Revenue Bonds (Tax-Exempt) were issued to finance permanent loan conversions, and were designated as Sustainability Bonds, aligning with the State's environmental goals ([FIGURE 3](#)). AHRB is rated Aa2/AA by Moody's and S&P respectively. The bonds were uniquely successful in achieving financial and strategic objectives for CalHFA:

- **Lowest Spread Bond Pricing in 2024 by any HFA** – CalHFA’s Affordable Housing Revenue Bonds priced better than all the other 180 HFA transactions in 2024 by an average of 38 basis points (0.38%) lower on a spread basis. CalHFA’s term bonds priced at least 16 basis points lower than any other HFA financing in 2024. ([FIGURE 4](#))
- **Increasing Financial Sustainability for CalHFA** – The bonds also were lower in interest cost than CalHFA’s only alternative through the Federal Financing Bank by an average of 50 basis points (0.50%).
- **Establishes Capital Financing Structure for Future Programs** – AHRB structure is flexible to include potential future lending programs for the multifamily rental, including construction financing. ([FIGURE 5](#))

### **Homeownership Programs – HOMR Issuance**


The Agency’s 2025A Homeownership Mortgage Revenue Bonds (Federally Taxable) were issued to finance first-lien and subordinate loans for low- and moderate-income first-time homebuyers in California. HOMR is rated Aaa/AA+ by Moody’s and S&P respectively and carried a Social bond designation by S&P. These bonds were successful in achieving additional strategic and financial objectives for CalHFA:

- **Financing a New Homeownership Lending Program** – The bonds financed a new Homeownership Program, the CalHFA MyAccess program, that offers total down payment assistance of up to 6% of the purchase price for first-time homebuyers when combined with another CalHFA program, MyHome. ([FIGURE 6](#))
- **Savings for First-Time Homebuyers** – CalHFA’s MyAccess program gave borrowers a rate up to 40 basis points (0.40%) less than existing CalHFA programs, saving CalHFA’s average first-time homebuyer around \$15,000 in interest costs over the life of the loan.
- **Increasing Financial Sustainability for CalHFA** – CalHFA’s estimated annuity income will exceed execution under its TBA model under a variety of prepayment scenarios.
- **Strong Bond Execution and Pricing** – CalHFA priced between 2 and 5 basis points through comparable transactions on a spread basis.

### **Summary**

CalHFA’s strategy to return to the capital markets to finance both homeownership and multifamily rental programs resulted in improved financial strength for CalHFA and cost savings for both the Agency and its borrowers. Efficiently accessing the bond market has resulted in first-time homebuyers in CalHFA’s MyAccess program saving \$15,000 over the life of the loan. CalHFA benefits from the establishment of an annuity income source from its homeownership programs.

For CalHFA’s multifamily rental programs, CalHFA established a continuing source of capital to finance new and existing programs. CalHFA’s strategy achieved wide market acceptance as demonstrated through its pricing results and is helping the Agency maintain its financial sustainability.



**Single Family Lending**

## Single Family Lending Program Bulletin

**February 18, 2025****Program Bulletin #2025-01**

**To: CalHFA Approved Lenders**

**New CalHFA Taxable Bond Programs**

CalHFA is adding several new taxable bond programs for low- to moderate-income homebuyers. These new taxable bond programs will offer additional down payment and pricing options to assist more homebuyers in the current market and will follow the same guidelines as the current MBS programs. These new programs are effective for new reservations on or after March 17, 2025.

**New Taxable Bond 1st Mortgage Programs**

**CalReady Conventional**

Taxable bond financed Fannie Mae HFA Preferred™ first mortgage. This loan may be combined with the MyHome Assistance Program (MyHome).

**CalReady FHA**

Taxable bond financed FHA first mortgage. This loan may be combined with the MyHome Assistance Program (MyHome).

**CalPLUS<sup>SM</sup> Access Conventional**

Taxable bond financed Fannie Mae HFA Preferred™ first mortgage combined with the new CalHFA MyAccess Program for down payment and/or closing costs. This loan must be combined with the MyHome Assistance Program (MyHome).

**CalPLUS<sup>SM</sup> Access FHA**

Taxable bond financed FHA first mortgage combined with the new CalHFA MyAccess Program for down payment and/or closing costs. This loan must be combined with the MyHome Assistance Program (MyHome).

**New Down Payment Assistance Program**

**MyAccess Program**

- Must be combined with MyHome and either CalPLUS Access FHA or CalPLUS Access Conventional
- All borrowers must be first-time homebuyers
- Up to 2.5% of the total loan amount to be used for down payment and/or closing costs only
- Deferred payment at 1.00% simple interest rate
- Must be in third lien position behind MyHome

Updated Conventional and Government handbooks will be available on our [website](#) on February 18, 2025 with all the program details.

For questions about this bulletin, contact CalHFA Single Family Lending Division by phone 916.326.8033 or by email at [SFLending@calhfa.ca.gov](mailto:SFLending@calhfa.ca.gov). Plus you can always visit CalHFA's website at: [www.calhfa.ca.gov](http://www.calhfa.ca.gov) or Single Family Lending directly at [www.calhfa.ca.gov/homeownership](http://www.calhfa.ca.gov/homeownership).

CalHFA thanks you for your business and we look forward to continuing to support your affordable housing loan needs.

**FIGURE 2**

California Housing Finance Agency  
Entry: **Bond strategy is a financial win-win for CalHFA and its borrowers**  
Category: Management Innovation: Finance



**Photos from CalHFA being shown on the screen at Times Square**

**FOR IMMEDIATE RELEASE**

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**California Housing Finance Agency sells Sustainability Bonds to fund loans for affordable housing development**

*CalHFA's new bond issuance aligns with environmental and social goals*

**SACRAMENTO, Aug. 18, 2023** — The California Housing Finance Agency last week sold \$84.9 million of affordable multifamily housing revenue bonds. Designated as Sustainability Bonds, this financing allows CalHFA to advance its mission of creating and preserving affordable housing for thousands of California families each year, while also promoting the state's environmental and social values.

"I am thrilled to announce this bond sale because it represents CalHFA using its strong financial position and expertise to bring private investment capital to the state of California that will help achieve the housing and environmental goals that are so important to our state's residents," said CalHFA Executive Director Tiena Johnson Hall.

Individual investors from California demonstrated their broad support for those values by placing orders for more than \$24.7 million of the bonds. The bond sale also experienced high demand from institutional investors, with more than 30 orders placed by that group.

This is CalHFA's initial debt offering through the new Affordable Multifamily Housing Revenue Bond Indenture, and the first time since 2014 that CalHFA has entered the capital markets to finance permanent loans for multifamily developments in this way.

"California's financing community has come out strongly to support CalHFA's mission of investing in diverse communities," said CalHFA Director of Financing Erwin Tam. "Through this issuance, CalHFA has also positioned itself as a proponent of the State's Environmental, Social, and Governance values by incorporating enhanced disclosure practices around ESG reporting to investors."

The bonds are designated as Sustainability Bonds by CalHFA, which indicates alignment with the International Capital Market Association Sustainability Bond Guidelines and UN Sustainable Development Goals for Green and Social bond expenditures. S&P has provided a second-party opinion confirming this designation.

The bonds are rated Aa2 by Moody's and AA by S&P, both with stable outlooks.

The California State Treasurer's Office served as the Agent of Sale, while Morgan Stanley served as Senior Manager for the transaction. Barclays Capital served as co-senior manager, and Ramirez & Co., Bank of America, and Citigroup Global Markets served as co-managers.

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**FIGURE 4**

### CalHFA Affordable Housing Revenue Bond Spread vs. All HFA Financings in 2024

