HOUSING FINANCE AGENCY INNOVATION FUND FOR

THE HARDEST HIT HOUSING MARKETS

Submission of the California Housing Finance Agency

PART ONE

Executive Summary

Soaring foreclosure rates are adversely affecting California's families, neighborhoods and property values. Unemployment, declining property values, severely underwater mortgages and unsustainable adjustable rate mortgages are among the main contributing factors. Based on current economic forecasts, the California Housing Finance Agency (referred to herein as "CalHFA", "we", "us" or "our") anticipates further adverse consequences as elevated foreclosure rates continue. In an effort to help mitigate the contributing factors associated with foreclosures and assist California families, CalHFA has been working on an ongoing basis with lenders, servicers, homeowners, loan counselors, and insurers to identify and develop solutions to reduce the number of foreclosures and where possible, enable borrowers to remain in their homes.

Access to federal funding through the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("HHF" or "Hardest Hit Fund") established by the U.S. Department of the Treasury ("U.S. Treasury") will enable qualified California homeowners to receive additional financial support – support that in most cases will go directly toward their home loans, through programs that CalHFA has designed in response to program guidelines announced by the Obama Administration on March 5, 2010. After several weeks of consultation with a number of CalHFA's constituencies, including the U.S. Treasury, California state officials, local governments, loan counseling agencies, Fannie Mae, loan servicers, lenders and the general public, CalHFA has identified several programs that it believes will efficiently and responsibly deploy HHF monies allocated to California.

As a condition to receiving these federal funds, CalHFA has prepared this Proposal which outlines four distinct programs. Three of these programs are specifically designed to increase the probability that qualifying California households will remain in their homes without the ongoing threat of foreclosure. The fourth program is intended to promote community stabilization by providing assistance to homeowners that participate in a short sale or deed-in-lieu foreclosure and transition into stable and affordable housing. These programs, while important, will not eliminate the foreclosure crisis affecting California. Instead, the programs described in this Proposal should be viewed as innovative and complementary tools to programs already announced by CalHFA, California Governor Arnold Schwarzenegger and the federal government under its Financial Stability Plan. These programs include the initiatives under the Making Home Affordable Program, Home Affordable Modification Program ("HAMP"), Second Lien Modification Program ("2MP"), Home Affordable Refinance Program ("HARP") and the Home Affordable Foreclosure Alternatives Program ("HAFA").

Establishment of an Eligible Entity

In accordance with the HHF Guidelines published by the U.S. Treasury, each recipient of funding from the HHF must qualify as an "Eligible Entity." This is defined as a "financial institution," as that term is defined in the Emergency Economic Stabilization Act ("EESA"). Since CalHFA is an agency of the State of California, it may not be considered an "Eligible Entity" for purposes of the HHF. Thus, CalHFA will be forming the CalHFA Mortgage Assistance Corporation, a California nonprofit public benefit corporation which will be tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Draft copies of the Articles of Incorporation and By-Laws of the Eligible Entity are being submitted with this Proposal.

PART TWO

a. General Overview of Programs

Data analyzed by CalHFA revealed that the severity of California mortgage defaults are based on two primary causative factors: (i) financial hardship impacting the ability to make mortgage payments due to a reduction in or loss of income, change in household circumstance such as death, illness or divorce, or other factors such as a recent or upcoming increase in a monthly mortgage payment and (ii) severe, unprecedented statewide devaluation of homes that prevents successful modification, sale or refinancing by financially impacted borrowers. An additional factor is the large number of "strategic defaults" by borrowers who can not reach an equity "break-even" for many years, and make an economic decision to no longer pay their mortgage payments.

The mortgage crisis in California is different from other states, both in the sheer magnitude of the problem and in the statewide severity of home value decline. The solutions that may work in other states may not make a meaningful impact in California because of the limited dollars available to help this large segment of the California population that is affected.

As CalHFA began to develop programs for the HHF initiative, it became apparent that a variety of comprehensive and sustainable solutions to a borrower's loan default would be required to address the full range of causes associated with a household's financial problem. CalHFA also recognized the importance of leveraging and improving existing foreclosure prevention programs, including ways to target low-to-moderate income homeowners. CalHFA is proposing a flexible approach that employs specific solutions to a borrower's default where funds can assist a borrower through more than one program. A central component of this Proposal is the goal to have lenders, servicers, borrowers and insurers, to the fullest extent possible, assist in matching the financial contribution made by CalHFA's federally-funded HHF monies when modifying and restructuring delinquent loans. Implicit in this Proposal is the need to leverage current loss mitigation processes and related federal government-sponsored programs as well as servicer/lender proprietary programs to maintain the continuity with CalHFA's proposed programs.

As a general matter, CalHFA envisions a maximum benefit of $50,000 (maximum benefit cap) per household, which, if eligible, may be used on an individual program or in conjunction with other programs in this Proposal.

Further hardest-hit analysis performed by CalHFA demonstrates that a significant number of borrowers throughout California have been impacted by the compounding effects of severe home value decline and/or protracted unemployment. (See Exhibit 1.b(i) on page 10). Additionally, data supplied to CalHFA also revealed that the foreclosure problem is pervasive throughout the entire State. In recognition of these facts, CalHFA has developed four comprehensive programs designed to address the needs of a borrower's specific situation rather than targeting certain regions or counties.

Program Objectives

As described in more detail below, the CalHFA HHF programs (the "HHF Programs") being proposed are aimed at the primary objective of preserving homeownership for low-to-moderate income homeowners in California by reducing the number of avoidable delinquencies and foreclosures. All of the HHF Programs have some shared characteristics, but each was designed to independently address one or more aspects of the current foreclosure crisis, including:

- Helping low-to-moderate income borrowers retain their homes if they either: (i) have suffered a financial hardship such as unemployment; (ii) have experienced a change in household circumstance such as death, illness or disability; or (iii) are subject to a recent or upcoming increase in their monthly mortgage payment and are at risk of default because of this economic hardship when coupled with a severe decline in their home's value.

- Creating an administratively simple, programmatically effective way to get federal funds to assist low-to-moderate income homeowners who meet one or all of the objective criteria described above. Speed of delivery will be balanced with fulfillment of the specific program's mission and purpose.

- Creating programs that have an immediate, direct economic and social impact on low-to-moderate income homeowners and their neighborhoods.

- Creating programs that minimize the need for extensive buy-in which has led to the lack of consensus among lenders, servicers or other third parties with other programs and negatively impacted their success.

- Leveraging the HHF dollars allocated to California by requiring, in most instances, that lenders, servicers, insurers and borrowers contribute financially to meet the dollar-for-dollar matching component.

Even with the breadth of the HHF Programs described herein, the actual financial allocation of resources from the HHF Fund to CalHFA will require that it impose certain eligibility criteria such as first lien mortgage loans, low-to-moderate income homeowners, maximum current first mortgage loan amounts, eligible first mortgage loan-to-value ratios (LTV) and other determining factors.

HHF Program Descriptions

The HHF Programs are designed to provide flexibility to CalHFA, loan servicers and lenders when addressing a borrower's individual situation. Subject to U.S. Treasury approval, loan servicers, counseling agencies and lenders will work closely with CalHFA to identify and target eligible homeowners and effectively deploy program funds. The features applied to each program are intended to follow the parameters of and comply with EESA. CalHFA notes that in each HHF Program, it is not offering incentives to servicers who participate in one or more of these programs. CalHFA concluded that the incentives currently being offered to servicers under existing federal programs are sufficient to motivate servicer/lender participation when coupled with the financial contribution of the HHF funds.

Based on a review of existing and potential program structures, and a broad range of input received by CalHFA in numerous stakeholder meetings, the following are the proposed initial programs CalHFA would seek to implement with its allocation from the Hardest Hit Fund:

1. **The Unemployment Mortgage Assistance (UMA)** – CalHFA will provide temporary financial assistance in the form of a mortgage payment subsidy of varying size and term to unemployed homeowners who wish to remain in their homes but are in imminent danger of default that could lead to foreclosure. These funds would provide up to 6 months of benefits, with a monthly benefit of up to $1,500 or 50% of the existing total monthly mortgage payment (consisting of principal, interest, taxes, insurance and HOA dues), whichever is less, with a financial contribution from the lender, servicer and/or borrower. The UMA program benefit cap is $9,000 per household. These funds would be used either as a stand-alone program or as an extension to federal funds allocated from HAMP unemployment program or other proprietary loss mitigation programs. For a comprehensive overview of this HHF Program, please refer to the UMA Term Sheet at Annex 2.a.1. The UMA Term Sheet also contains information describing the interaction of the UMA program with other HHF Programs, as well as with HAMP.

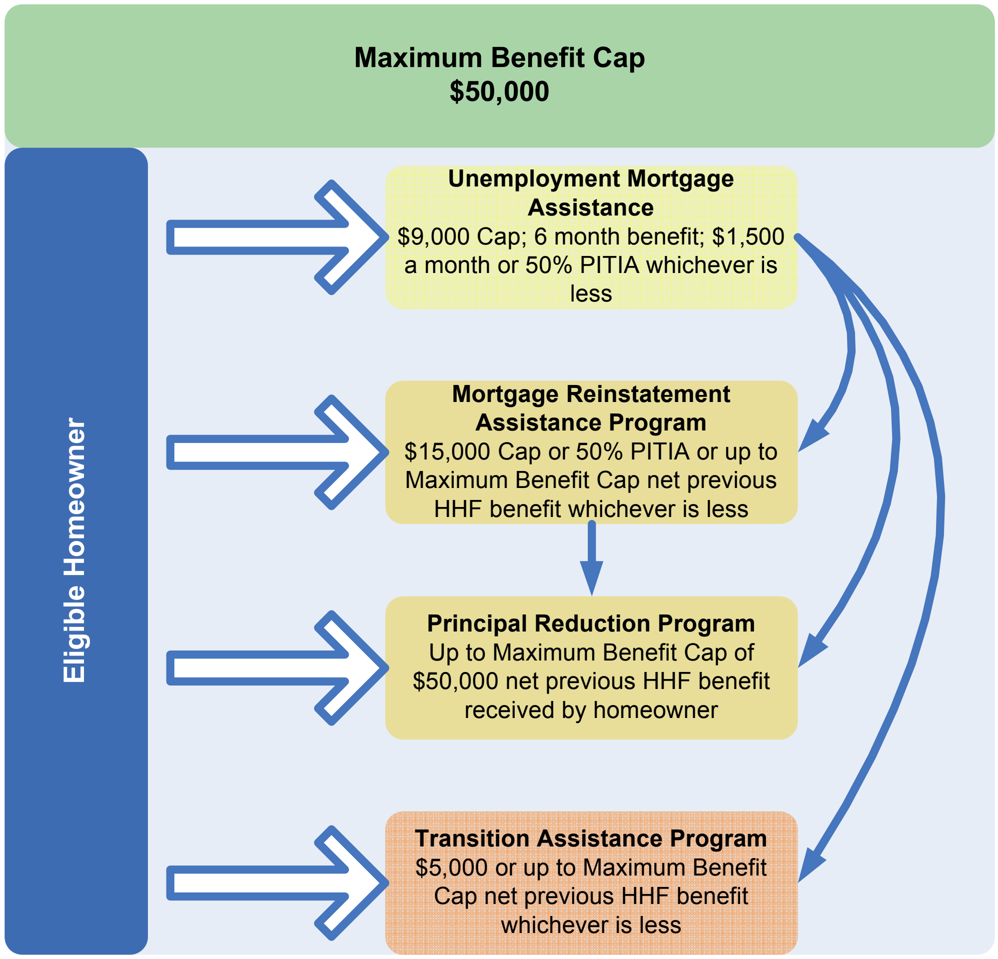
2. **The Mortgage Reinstatement Assistance Program (MRAP)** - CalHFA will provide financial assistance in the form of funds to reinstate delinquent mortgage loans that are in arrears to prevent potential foreclosures. These funds would provide benefits of up to $15,000 per household or 50% of the past due arrearage amount, whichever is less, with a dollar-for-dollar match contribution goal from the lender, servicer, insurer and/or borrower. Application of funds under MRAP would most likely be used in conjunction with a loan modification that generates a positive outcome for the homeowner and the lender. For a comprehensive overview of this HHF Program, please refer to the MRAP Term Sheet at Annex 2.a.2.

3. **The Principal Reduction Program (PRP)** – CalHFA will provide capital on a matching basis with participating financial institutions to reduce outstanding principal balances of qualifying borrowers with negative equity to market levels needed to prevent avoidable foreclosures and promote sustainable homeownership. The PRP can also be used in conjunction with a loan modification that generates a positive outcome for the homeowner and lender. Funds would be available up to the benefit cap of $50,000 per household or the program balance

remaining if the borrower has utilized either one or both of the UMA and/or MRAP programs. The goal of this program is to have a dollar-for-dollar match by the participating lender. In the event that there is less than a 100% match by the participating lender, the assistance will be structured as an interest-free, subordinate loan that may be forgiven over a three-year period. CalHFA will require that the current first mortgage loan-to-value (LTV), after principal reduction, does not fall below 120%. For a comprehensive overview of this HHF Program, please refer to the PRP Term Sheet at Annex 2.a.3.

4. **The Transition Assistance Program (TAP) -** CalHFA will provide eligible homeowners with transition assistance when it is determined that they can no longer afford their home. CalHFA's Transition Assistance Program will be used in conjunction with servicer/lender short sale and deed-in-lieu of foreclosure programs to help borrowers make a transition to new housing. The benefits of TAP will not only aid in borrower transition to more affordable housing, but will assist the community by helping to avoid protracted foreclosure proceedings and allowing these home to be marketed and reoccupied in a streamlined manner. Borrowers would be required to occupy and maintain the property until the home was sold or returned to the lender as negotiated. Funds would be available on a one-time only basis of up to $5,000 per household, net of HAFA assistance and previous HHF Program assistance, and may be used or layered with other CalHFA HHF Programs. No funds will go directly to the borrower. All funds will be sent to the Servicer subject to Servicer / Investor approval of short sale or deed-in-lieu. The Servicer is required to follow HAFA guidelines for allowable costs. Funds will also be available for counseling services to assist in the housing transition. CalHFA envisions that these monies would be used to complement other federal or lender programs designed specifically to assist borrowers who have suffered a financial hardship, and as a result, are no longer financially able to afford their mortgage payments. For a comprehensive overview of this HHF Program, please refer to the TAP Term Sheet at Annex 2.a.4.

To illustrate the HHF Programs outlined above, the dollars available to eligible borrowers may be deployed in the following manner:



A detailed flow chart for each HHF Program and their respective components is attached to this Proposal as Annex 2.b.1 through Annex 2.b.4. These process flow charts track a borrower's prospective participation in each HHF Program from initial intake through closing, and all pertinent steps in between.

Local Innovation Fund Allocation

In addition to the programs described above, and in response to the U.S. Treasury's request for innovative approaches to foreclosure prevention, CalHFA will establish a competitive proposal process to encourage a variety of alternative and innovative solutions to the foreclosure problem.

During the development of this Proposal, CalHFA received numerous suggestions for mitigating the foreclosure crisis from local governments, counseling agencies, financial advisors and the public. These proposals offer unique approaches to help impacted borrowers, and their respective components may be applicable to other programs and approaches.

Examples of the proposals include:

- Equity sharing with borrowers utilizing a partial write-down or forbearance of principal.

- Negotiating the partial payment of principal debt based on the expected net present value of loan in relation to property value, coupled with local targeting.
- Aiding seniors through a modified reverse mortgage structure.
- Targeting local government home-buyer assistance programs to retain homeownership and target impacted neighborhoods.
- Leverage Neighborhood Stabilization Funds (NSP) in conjunction with homeownership transition programs in this Proposal.

Given the timeframe to submit this Proposal, there was insufficient time to evaluate fully any of these proposals and further budget HHF monies. With the limited HHF funds available, it is reasonable that monies in this program be allocated based upon a competitive proposal process submitted by interested parties to CalHFA. CalHFA will utilize a Request for Proposal (RFP) process with some general program parameters (including a requirement that any proposed programs comply with requirements under EESA) that is sufficiently flexible to encourage innovation and local solutions to the foreclosure problem. Contingent on the proposed programs being approved by Treasury, CalHFA and Treasury will determine the level of funding for the Treasury-approved programs. The total allocation of HHF Program monies for the Innovation Fund will be determined after responses to the RFP are evaluated; funding will be limited to no more than 5% of the total allocation after administration expenses (approximately $32 million).

State and Local Governments

While some of the HHF Programs described herein require lenders to participate financially, programs designed by state and local agencies in California have legal and program limitations that make such participation difficult.

By way of background, first-time homebuyer programs developed by state and local agencies in California are often financed in whole or in part with the sale of bonds which are tax-exempt under IRC section 143. Such bonds are subject to a variety of public purpose restrictions imposed by federal tax law. In addition, the bond indentures in which these loans are held may contain terms which are substantially different from the securitizations found in the commercial market. The combination of those tax rules and unique indenture terms may make it far more difficult for a tax exempt public issuer to modify the loans. These restrictions may directly affect the ability of some public issuers to implement certain program terms required of private lenders, particularly with respect to matching principal reductions.

For example, most CalHFA single-family home loans are financed under the 1982 Home Mortgage Revenue Bond indenture (HMRB). The HMRB indenture contains many terms which are both different from those in standard private securitizations, as well as terms found in more modern public issuer indentures. Modifications to HMRB terms require the consent of 60% of bondholders, a standard that is currently not practical to achieve.

By way of example, HMRB requires that 50% of the unpaid principal balance of the loan be insured by mortgage insurance, a standard much higher than the commercial marketplace. Thus, bondholders have an expectation that the top 50% of any loss will be absorbed by the insurer. This greatly limits the ability of the Agency to modify loans to reduce principal, because the insurer, not the bondholder, would be expected to absorb that loss in most cases. Bond counsel has advised the Agency that many such modifications would require CalFHA's MI reinsurer to contribute significantly to the principal reduction, which may not be possible.

These bond issues also have specific durations, generally coincident with terms of the originated mortgages, and defined interest rates. Bond investors have a legal right to repayment based on the interest rate and maturity date of the bonds and their underlying mortgages. In situations where the term of a mortgage extends past the term of the bond series, CalHFA would be forced by indenture terms to retire that related portion of outstanding bonds from sources other than the repayment of the mortgage. In addition to the issue of maturity, reductions in interest rate also impact CalHFA investors who are expecting cash payments based on their stated coupon rate, and CalHFA would likely need to expend additional Agency cash to make up any shortfall in interest payments caused by a loan modification required interest rate reduction. Such funds are not available. Principal reductions for delinquent loans also presents difficulties for CalHFA, as these mortgages are whole loans and are not securitized whereby investors do not have any guarantee of scheduled payment of principal and interest outside of the covenants of the bond indenture.

In addition to these financial considerations, public issuers of tax-exempt housing bonds are required by federal law to make loans meeting high public purpose objectives of federal tax law. Loans are limited to first-time homebuyers meeting certain income and sales price limits. CalHFA and other lenders issuing tax exempt single family housing bonds are limited by law to extremely thin margins that keep the cost to the borrower low and prevents such issuers from making the large profits that subprime and other lenders were making. CalHFA and other such lenders were not subprime lenders, and made loans with borrower-friendly, public purpose terms. CalHFA and other public purpose lenders should not be required to economically damage their programs to rectify the excesses of subprime and private lenders.

For these reasons, and to preserve the investment of state and local governments in their respective homebuyer programs, CalHFA is proposing that the matching requirement for the use of federal dollars available in this program not be required for state and local government programs. While this request may be perceived as an enrichment of eligible lenders, the preservation of the benefits to first-time low-to-moderate income homebuyers under these various programs outweigh that consideration. If matching is required for public purpose lenders, many borrowers from such lenders simply will not be served under this program. As discussed below, these borrowers also are not eligible to participate in the federal government's Making Home Affordable Program.

More specifically, any matching requirement under the HHF Programs contained in this Proposal would be waived for first mortgage loans:

1. Held within an indenture that contains loans financed in whole or in part by bonds that are tax-exempt under IRC section 143, and made by a state or local public agency, including joint powers authorities. Loans receiving mortgage credit certificates issued by public agencies under section 143 would also be eligible. Such section 143 financed loans are presumptively eligible as meeting the low-to-moderate income requirement because federal tax law requires that those borrowers be low or moderate income persons.

2. Made in conjunction with subordinate loans provided by a qualifying state or local program to provide financial assistance to first-time homebuyers as approved under CalHFA's Affordable Housing Partnership Program (AHPP) or other government based program approved by CalHFA pursuant to this Proposal.

Government entities under this exemption would be expected to identify any distressed borrower in their respective programs and contact the servicer (or originator/investor) of the first mortgage to facilitate the process of involving the borrower in the appropriate loss mitigation program described in this Proposal. Funds from this program would be disbursed to the servicer. Where necessary, a partial write-off of a subordinate loan by the government entity may be required if there are combined loan-to-value (CLTV) restrictions related to the modification.

b. Population Served and Allocation Methodology

In response to the U.S. Treasury's proposal guidelines that require CalHFA to identify the population served and the allocation methodology, CalHFA collected data from a variety of sources including major lenders, loan servicers, mortgage loan data repositories, the State of California's Employment Development Department and the Federal Reserve Bank of New York. CalHFA used this information to analyze and demonstrate the extent to which California homeowners have been impacted by the foreclosure crisis.

Exhibit 1.b(i) shown on the following page illustrates the diversity and depth of California's "hardest-hit" unemployment, house price decline and mortgage delinquency problem.

Exhibit 1.b(ii) shown on page 11 illustrates how CalHFA's HHF Programs can be used to target hardest-hit borrower conditions, regardless of where they reside, to help prevent avoidable foreclosures.

Exhibit 1.b(iii) shown on page 12 illustrates CalHFA's HHF Program funding assumptions for three years beginning in October 2010. The average assistance to homeowners, whether participating in one or more HHF Program, <u>will not exceed $50,000 per household</u>.

Exhibit 1.b(i)

CalHFA
Unemployment, Housing Price Decline and Mortgage Loan Delinquency Data – By California Counties

	Unemployment		Housing Decline	Delinquent Loans		
County	Rate by County	Unemployment Ratio	Price Decline	Delinquent Loans	Pct. Delinquent	Delinquency Ratio
Alameda	11.5%	0.92	-42.7%	16,663	11.0%	0.77
Alpine	11.6%	0.93	-24.5%	17	5.6%	0.39
Amador	14.1%	1.13	-45.7%	525	11.9%	0.84
Butte	14.9%	1.19	-27.5%	1,981	10.3%	0.72
Calaveras	16.8%	1.34	-44.2%	839	12.0%	0.84
Colusa	27.6%	2.21	-55.8%	302	16.2%	1.14
Contra Costa	11.7%	0.94	-56.1%	17,716	13.6%	0.95
Del Norte	13.6%	1.09	25.9%	132	8.0%	0.56
El Dorado	13.2%	1.06	-35.7%	2,945	11.3%	0.79
Fresno	18.5%	1.48	-46.7%	13,233	16.1%	1.13
Glenn	18.2%	1.46	-39.1%	293	15.1%	1.06
Humboldt	12.2%	0.98	-18.0%	809	6.7%	0.47
Imperial	27.2%	2.18	-55.2%	2,611	22.7%	1.59
Inyo	10.4%	0.83	-20.4%	75	6.0%	0.42
Kern	17.4%	1.39	-53.0%	14,865	19.9%	1.40
Kings	18.2%	1.46	-39.6%	1,622	15.7%	1.10
Lake	19.3%	1.54	-49.2%	839	14.6%	1.02
Lassen	16.8%	1.34	-17.8%	358	11.4%	0.80
Los Angeles	12.3%	0.98	-37.9%	117,557	14.8%	1.04
Madera	16.6%	1.33	-56.2%	2,513	19.0%	1.33
Marin	8.4%	0.67	-22.0%	1,526	4.7%	0.33
Mariposa	14.5%	1.16	-33.1%	147	9.7%	0.68
Mendocino	12.5%	1.00	-37.5%	612	9.4%	0.66
Merced	22.1%	1.77	-69.4%	5,273	22.6%	1.59
Modoc	17.6%	1.41	-16.7%	46	8.6%	0.60
Mono	7.8%	0.62	-31.4%	261	7.3%	0.51
Monterey	17.7%	1.42	-65.0%	5,472	16.0%	1.12
Napa	10.4%	0.83	-41.7%	1,667	10.8%	0.76
Nevada	11.9%	0.95	-29.5%	1,158	8.0%	0.56
Orange	9.7%	0.78	-34.1%	30,625	10.7%	0.75
Placer	11.6%	0.93	-34.9%	6,162	12.7%	0.89
Plumas	22.8%	1.82	-31.6%	230	9.4%	0.66
Riverside	14.9%	1.19	-54.9%	49,302	22.2%	1.56
Sacramento	12.9%	1.03	-51.9%	26,875	16.6%	1.17
San Benito	22.1%	1.77	-57.3%	1,019	18.5%	1.30
San Bernardino	14.4%	1.15	-59.2%	45,203	22.0%	1.54
San Diego	10.6%	0.85	-38.0%	36,493	12.3%	0.86

San Francisco	9.9%	0.79	-14.8%	2,726	4.3%	0.30
San Joaquin	18.4%	1.47	-63.7%	14,757	21.4%	1.50
San Luis Obispo	10.2%	0.82	-31.6%	2,362	8.0%	0.56
San Mateo	9.4%	0.75	-23.5%	5,009	6.4%	0.45
Santa Barbara	9.9%	0.79	-44.9%	3,954	10.9%	0.77
Santa Clara	11.7%	0.94	-32.4%	16,459	8.9%	0.62
Santa Cruz	15.3%	1.22	-40.4%	2,609	8.8%	0.62
Shasta	17.7%	1.42	-31.4%	2,292	12.2%	0.86
Sierra	18.7%	1.50	-30.1%	33	9.6%	0.67
Siskiyou	19.4%	1.55	-23.1%	359	8.8%	0.62
Solano	12.7%	1.02	-57.6%	8,035	17.2%	1.21
Sonoma	11.0%	0.88	-43.1%	5,291	9.9%	0.69
Stanislaus	19.1%	1.53	-63.4%	11,023	20.1%	1.41
Sutter	22.4%	1.79	-48.1%	1,663	16.8%	1.18
Tehama	17.0%	1.36	-41.3%	671	15.2%	1.07
Trinity	22.3%	1.78	-17.1%	81	9.1%	0.64
Tulare	18.7%	1.50	-43.1%	6,433	17.3%	1.21
Tuolumne	15.0%	1.20	-33.8%	591	9.1%	0.64
Ventura	11.1%	0.89	-40.7%	11,053	12.0%	0.84
Yolo	14.6%	1.17	-39.9%	2,252	12.0%	0.84
Yuba	20.3%	1.62	-51.7%	1,559	21.6%	1.52

Unemployment Rates: Unemployment statistics were provided by the California Employment Development Department website. Data is through February 2010.

Housing Price Decline: Housing Decline statistics provided by third party vendor DataQuick. The period selected illustrates the peak decline for California based on the change (decline) in home sales price for each county from 2006 to 2009.

Delinquent Loans: Delinquent loan statistics, as of January 2010, provided by Federal Reserve Bank of New York from a data base of approximately 31.5 million active mortgage loans across the U.S. This database includes mortgages from 9 of the top 10 mortgage servicers and represents approximately 50-70% of the number of mortgages in the U.S. The database segment utilized in the chart is limited to California. The Federal Reserve Bank believes the percentages in its database are likely indicative of market conditions. Data are calculated based on first-liens only for single and 2-4 family residences, condos, and cooperatives. Active loans include loans with current, delinquent or foreclosure status (excluding REOs).

Weighted Ratios:

Unemployment Ratio is defined as the county's unemployment rate as compared the State of California's overall unemployment rate which was 12.5% as of February 2010.

Delinquent Ratio is defined as the county's delinquent loan percent as compared to the State of California's overall delinquent loan percent which was 14.5% as of January 2010.

A ratio of 1.00 indicates the county is experiencing the same level of decline experienced overall by the state of California. A ratio greater than 1.00 indicates the county is experiencing a higher level of decline and a ratio less than 1.00 indicates the county is experiencing a lower level of decline as experienced overall by the state of California respectively.

Exhibit 1.b.(ii)

CalHFA
Hardest Hit Fund
Program Assumptions

		Unpaid Principal Balance			Estimated Program Participants			
Program	Program Average	Low $ 200,000	Average $ 300,000	High $ 400,000	Low $ 200,000	Average $ 300,000	High $ 400,000	Total
Unemployment (UMA)								
Average Program $	$7,228	$5,426	$8,139	$9,000				
Anticipated % of Program	10%	30%	45%	25%				
Anticipated Program Spend	$64,713,000	$19,413,900	$29,120,850	$16,178,250	3,578	3,578	1,798	8,953
Average PITIA Payment		$1,808.67	$2,713.00	$3,617.34				
Gross Income (Annual)		$51,676	$77,514	$103,353				
Unemployment Benefit		$1,400	$1,700	$1,900				
PITIA Payment at 31%		$434.00	$527.00	$589.00				
Shortfall		$1,374.67	$2,186.00	$3,028.34				
Estimated Monthly Program $		$904.33	$1,356.50	$1,500.00				
Reinstatement (MRAP)								
Average Program $	$7,484	$5,426	$8,139	$10,852				
Anticipated % of Program	20%	30%	45%	25%				
Anticipated Program Spend	$129,426,000	$38,827,800	$58,241,700	$32,356,500	7,156	7,156	2,982	17,293

Exhibit 1.b.(ii)

CalHFA
Hardest Hit Fund
Program Assumptions

Program	Program Average	Unpaid Principal Balance Low $ 200,000	Unpaid Principal Balance Average $ 300,000	Unpaid Principal Balance High $ 400,000	Estimated Program Participants Low $ 200,000	Estimated Program Participants Average $ 300,000	Estimated Program Participants High $ 400,000	Total
Principal Reduction (PRP)								
Average Program $	$31,450	$25,696	$32,609	$39,544				
Anticipated % of Program	65%	30%	45%	25%				
Anticipated Program Spend	$420,634,500	$126,190,350	$189,285,525	$105,158,625	4,911	5,805	2,659	13,375
Principal Reduction Assistance Only								
Average Assistance	$38,095	$30,000	$40,000	$50,000	2,103	2,366	1,052	5,521
Anticipated % of Program	50%	30%	45%	25%				
Anticipated Program Spend	$210,317,250	$63,095,175	$94,642,763	$52,579,313				
Principal Reduction + 1 Other Program								
Average Assistance	$30,216	$25,000	$31,000	$38,000	2,019	2,442	1,107	5,568
Anticipated % of Program	40%	30%	45%	25%				
Anticipated Program Spend	$168,253,800	$50,476,140	$75,714,210	$42,063,450				
Principal Reduction + 2 Other Programs								
Average Assistance	$18,403	$16,000	$19,000	$21,000	789	996	501	2,286
Anticipated % of Program	10%	30%	45%	25%				
Anticipated Program Spend	$42,063,450	$12,619,035	$18,928,553	$10,515,863				
Transition (TAP)								
Average Program $	$5,000							
Anticipated % of Program	5%	30%	45%	25%				
Anticipated Program Spend	$32,356,500	$9,706,950	$14,560,425	$8,089,125	1,941	2,912	1,618	6,471
Program Total	100%	$194,139,000	$291,208,500	$161,782,500	17,586	19,451	9,056	46,093
Program Total $ (Net)	$647,130,000							

Exhibit 1.b(iii)

CalHFA
Hardest Hit Fund
Program Funding Assumptions

Program	FY 10/11	FY 11/12	FY 12/13	Total
Unemployment (UMA)	$29,120,850	$25,885,200	$9,706,950	$64,713,000
Reinstatement (MRAP)	$58,241,700	$51,770,400	$19,413,900	$129,426,000
Principal Reduction (PRP)	$189,285,525	$168,253,800	$63,095,175	$420,634,500
Relocation (TAP)	$14,560,425	$12,942,600	$4,853,475	$32,356,500
Total (Net of Admin)	$291,208,500	$258,852,000	$97,069,500	$647,130,000
Administrative				$52,470,000
California HHF Allocation				$699,600,000

Program funding for fiscal years 2010/2011, 2011/2012, and 2012/2013 is projected to be 45%, 40%, and 15% respectively.

Program Funding reported on federal fiscal year (October 1 to September 30) basis.

CalHFA reserves the right to adjust these allocations amount the various HHF programs based on various factors, including without limitation, borrower and lender participation.

Program funding for fiscal years 2010/2011, 2011/2012, and 2012/2013 is projected to be 45%, 40%, and 15% respectively.

Program funding reported on federal fiscal year (October 1 to September 30) basis.

CalHFA reserves the right to adjust these allocations among the various HHF Programs based on various factors, including without limitation, borrower and lender participation.

Overall Program Eligibility

Each of the HHF Programs contained in this Proposal have certain borrower and property specific eligibility requirements, as described more fully below. CalHFA understands that the articulated purpose of these funds is to assist those borrowers "hardest hit" by the foreclosure crisis in California. In determining those who have been most seriously impacted by this crisis, CalHFA determined certain required eligibility criteria common to all borrower applicants.

<u>Borrower Eligibility Criteria</u>: For each of the programs described in this Proposal, the following eligibility criteria will be generally applicable to applicants:

- Borrower must meet the low-to-moderate income limitations described as at or below 120% of AMI based upon the county where borrower resides, either at loan origination or at the time of application for the HHF Programs. This can also be satisfied if the borrower can prove that they have a loan financed in whole or in part by bonds that are tax-exempt under IRC section 143.
- Borrower must complete and sign a Hardship Affidavit and document the reason for the hardship, which may include the loss of employment, reduction of income, disability or illness. The documentation to support income should not be more than 60 days old as of the date the borrower applies for the modification program or as otherwise required by the lender.
- Borrower has adequate income to sustain modified mortgage payments per lender guidelines.
- Borrower is able to satisfy program guidelines established by CalHFA.
- Borrower's mortgage loan is delinquent or the servicer received documentation from the borrower that substantiates an imminent default that meets hardship qualifications.
- Borrowers who have recently encountered a financial hardship due to their military service are presumed eligible conditioned upon servicer receipt of a financial and hardship statement provided by the borrower. Eligible borrowers may include members of the California National Guard or military reserve ordered to federal active duty, are transferred to another military installation or are honorably discharged within the prior six months. Such individuals may be eligible to receive HHF Program funds even if the lender does not provide matching funds.

<u>Property Eligibility Criteria</u>: For each of the programs described in this Proposal, the following eligibility criteria will be generally applicable to all properties:

- The subject property is a first lien mortgage loan.
- The total original mortgage indebtedness cannot exceed the GSE conforming limit of $729,750.
- The property securing the mortgage loan must not be abandoned, vacant, condemned or in a serious state of disrepair.

- The property must be owner-occupied, the borrower's principal residence and located in California.

General Program Exclusion Criteria: Although an applicant may satisfy some or all other the criteria established by CalHFA for participation in one or more of the HHF Programs, if such applicant meets any of the following, they will not be eligible to participate:

- The borrower owns real property other than their primary residence being considered for assistance.

- The loan was originated after January 1, 2009.

- The borrower consummated a "cash-out" refinancing of the subject property (a refinancing for purposes solely of obtaining a new interest rate and loan term is permissible).

Loan Counseling

CalHFA believes it is critical for borrowers to complete counseling with a HUD-approved counseling agency. The counseling agency will work with the borrower to obtain financial information to assess their suitability for one or more of the HHF Programs. The counseling agency may also help the applicant determine if they qualify for participation in lender-approved modification programs, such as HAMP (with or without the HHF Program assistance), the CalHFA CMP (as discussed below) or another suitable lender loan modification program, and recommend a course of action based on the facts and circumstances presented by the borrower's application file. Under this Proposal and the HHF Programs, CalHFA will encourage that every effort be made by servicers and counseling agencies to have borrowers complete the necessary counseling.

Borrowers that are experiencing excessive consumer debt may be required to seek debt management or National Foreclosure Mitigation Counseling (NFMC) Level IV counseling (or the equivalent). We recognize that some borrowers may be immediately eligible for the program and may not require counseling as determined by the servicer (e.g., a borrower suffers a reduction in income but does not have extensive consumer debt).

CalHFA has set aside approximately $10 million included in the administrative expense budget to subsidize required counseling for approximately 30,000 program applicants.

Outreach and Eligibility Process

A critical component of the HHF Programs is the outreach to borrowers, eligibility determination and ultimate approval by CalHFA. Outlined in this section is a general framework to reach qualified borrowers and place them in an efficient decision making system that facilitates the rapid implementation of the programs.

CalHFA will use its Centralized Processing Center ("CPC"), participating counselors and servicers to help identify, pre-qualify and/or place homeowners in the most appropriate program after conducting a full evaluation of their financial condition and hardship. Based on a borrower's financial situation (e.g., income, debt, DTI ratio) and reason for delinquency (e.g., temporary vs. permanent), the counselor/servicer may recommend use of an HHF Program. Participating servicers will be required to first evaluate the mortgage loan and if eligible, offer HAMP and HAFA programs to borrowers prior to application for HHF Program monies. Servicers will be encouraged to use HHF Program monies to reverse a previous HAMP NPV negative result.

CalHFA does not envision re-underwriting HAMP, HAFA programs and checking servicers' analyses. However, we will require the counselor/servicer share certain data and documentation with CalHFA to confirm HHF Program eligibility, to substantiate the request for HHF monies and to demonstrate that use of these funds will help achieve a positive result and prevent an avoidable foreclosure. We will also use some of the data received to perform compliance and quality control processes and develop reporting, as discussed herein.

Loan Servicers

- The major servicers that administer the majority of the single family loans in California will be actively encouraged to participate in the HHF Programs detailed in this Proposal. Servicer outreach to borrowers that qualify under program criteria will be done through a variety of channels, include mailings, telephone contact and other efficient methods in an attempt to contact eligible borrowers and solicit favorable responses.

- Although servicer and lender participation in the HHF Programs are strictly voluntary, servicers will be required to enter into a HHF Program participation agreement with CalHFA to offer these programs to their borrowers.

- Servicers will apply the guidelines set forth in this Proposal as applicable to individual borrowers and their loans, and determine the ability of their respective investors to participate financially.

- Servicers will work with CalHFA to identify California homeowners that may be eligible for HHF Programs and be required to code loans in their respective servicing systems to enable servicing staff to advise borrowers on eligibility and the necessary steps to become part of a particular HHF Program.

Counseling Agencies

- Loan counseling agencies will be informed of the HHF Programs and educated on the program parameters through the established network of foreclosure counseling agencies in California that meet or exceed HUD guidelines and are currently listed on the HUD website. This coordination effort will be managed by the Rural Community Assistance Corporation, a non-profit organization that currently partners with CalHFA to administer the State's National Foreclosure Mortgage Counseling Program funds.

- Counseling agencies, with their unique knowledge of counseling clients, will channel these borrowers to the Centralized Processing Center ("CPC") after a pre-qualifying evaluation is completed to determine program eligibility and to provide an assessment to determine the best solution for the borrower(s) and their household.

Local Governments and Non-Profits

Local governments and non-profits that have developed and administered first-time homeowner programs will also be encouraged to review their portfolios and identify borrowers that may qualify and need assistance. Staff administering these local programs would refer borrowers to counseling agencies for assistance, or may work directly through servicers or CalHFA.

Operational Considerations

Timeline for Implementation

Given the timing between the date of the initial HHF award announcement and date of this Proposal, the programs outlined herein, if approved by the U.S. Treasury, will need to be quickly developed by CalHFA staff and contractors. The main steps for implementation include:

- Developing the systems and identifying the resources to support the HHF Program, preparing program documents and processing workflows (that include CalHFA staff, contractors, servicers and housing counselors) and providing training;
- Developing a comprehensive outreach program including program material development and dissemination; and
- Establishing internal and external cash advance and accounting procedures, underwriting and financial review, and fraud, risk and quality control practices.

CalHFA believes that certain of the programs described herein could be operational within 120 days after final approval by the U.S. Treasury. Attached as Annex 1 is a detailed timeline that sets forth implementation detail from the anticipated date of the U.S. Treasury approval of the Proposal to initial deployment of capital (for each program component as applicable). The timeline includes a summary of all material internal and external processes/steps that need to be completed prior to HHF Program launch and funding.

We would request from the U.S. Treasury that an advance funding (administrative and program-based) be made available to CalHFA to test each program prior to its statewide launch. CalHFA believes this step is critical to minimize program glitches commonly associated with new program development. CalHFA is sensitive to the unintentional stress factors experienced by homeowners, servicers and counseling agencies that will be impacted by these programs and we seek to avoid or minimize these effects to the best of our ability. CalHFA intends to use its low-to-moderate income first-time homebuyer portfolio to test loans in conjunction with each HHF Program. In addition, CalHFA will make every effort to include an external servicer actively participating in HAMP in this “pilot” program.

c. Capacity to Implement HHF Programs

Background on CalHFA

CalHFA was created in 1975 for the sole purpose of providing low cost financing for both rental and ownership housing. CalHFA is a quasi-independent agency that is governed by a board of directors consisting of appointed and ex-officio members. To date, the majority of CalHFA's loans are funded through the sale of a combination of tax-exempt and taxable mortgage revenue bonds, the proceeds of which are used to provide funding for affordable rental projects and first-time homeownership with various subordinate mortgage loans to assist homeowners. CalHFA loans for home ownership are originated and administered by participating private lenders and servicers along with CalHFA's in-house servicing, credit underwriting review, processing and compliance functions. Additional information on CalHFA, along with a database of participating lenders can be found on CalHFA's website – www.calhfa.ca.gov. CalHFA continues to offer housing finance programs that help make home ownership more affordable for low-to-moderate income households.

CalHFA also has extensive experience administering state bond-funded programs. Programs have included: the California Housing Downpayment Assistance Program in the amount of approximately $320 million; the Extra Credit Teacher Program, in the amount of approximately $25 million, the School Facility Fee Program, in the amount of approximately $50 million; the Residential Development Loan Program, in the amount of approximately $50 million; and the housing loan development component of the Mental Health Services Act, in the amount of $400 million.

CalHFA has taken a number of steps to address the foreclosure crisis in California both through programs both within and outside of our own loan portfolio. CalHFA works closely with our administrative contractor, the Rural Communities Assistance Corporation (RCAC), to administer funds from the National Foreclosure Mitigation Counseling (NFMC) grant program administered by NeighborWorks® America. This program helps fund counseling activities intended to assist homeowners of owner-occupied homes with mortgages either currently in default or in danger of default. In addition, we have an aggressive internal program (Keep Your Home campaign), that is used to identify and communicate with our own borrowers that have or are at risk of falling behind on their mortgage.

In May 2009, CalHFA introduced the CalHFA Loan Modification Program ("CMP") for borrowers with CalHFA mortgages. CMP was designed as a simple, streamlined loss mitigation tool aimed at helping families in the CalHFA single-family loan portfolio retain their homes and, at the same time, minimize losses to CalHFA's bondholders that would otherwise result from foreclosure. To date, CalHFA has received over 550 applications and approved approximately 300 for final modification.

Due to the requirements of our home mortgage revenue bond indenture, borrowers with CalHFA loans cannot effectively participate in the federal government's Making Home Affordable Program. However, borrowers with CalHFA loans that are part of a GSE mortgage-backed security are restricted by bond indenture requirements and thus, can be referred to those federal programs such as HAMP for assistance.

In conjunction with the CMP, CalHFA administers a variety of loss mitigation programs that provide necessary alternatives to loan modifications including forbearance and repayment plans, short sales, deeds-in-lieu of foreclosure and borrower relocation assistance.

Experienced Staff

CalHFA's current programs are overseen and administered by a highly-experienced team of middle and senior level managers. Collectively, CalHFA senior officers have over 175 years of experience in the mortgage industry and in single-family low-to-moderate income housing programs. CalHFA as a whole has developed extensive experience over the course of its 35-year existence in the creation, implementation and management of new programs.

CalHFA employs a comprehensive project management approach to the development of programs that involves subject matter experts from within CalHFA, complemented as necessary by outside expertise, detailed project tracking to ensure timely delivery of programs and management involvement that coordinates necessary resources and determines priorities. Our depth of management experience will add significant value to the HHF Programs and ensure proper development, implementation, quality, compliance, controls and adherence to policies and procedures. We appreciate the opportunity provided to our experienced team to work with the U.S. Treasury to design and implement scalable, innovative approaches to foreclosure prevention that meet the needs of California's hardest-hit communities and homeowners. We are confident that our programs will complement other federal and private industry programs and activities designed to stabilize California's housing market.

Within CalHFA, staff has been dedicated to providing outreach and training to borrowers, lenders and local governments to ensure a complete understanding of our programs. This outreach effort is coupled with our in-house marketing department that provides the necessary materials and media connections to promote programs. Once loans are purchased by CalHFA, a network of loan administrators manage the loan servicing and default management functions through both in-house servicing and outside servicers. Credit decisions for the loan portfolio are made by a single department to ensure uniform application of loan policies and servicing guidelines. To that end, CalHFA intends to leverage its current systems and protocols in fulfilling the compliance and monitoring requirements that come with receiving the monies from the Hardest Hit Fund.

Technology & System Infrastructure

CalHFA will take full advantage of its current infrastructure, staff and systems to ensure that administrative program dollars from the U.S. Treasury are used efficiently and effectively to achieve program goals. There will be some new technology developed specifically for the HHF Programs to capture, track and monitor each program transaction. CalHFA will explore every opportunity to leverage in-house resources and technologies and external industry processes, workflows, and reports that are already in use to perform loss mitigation activities and administer unemployment relief programs. CalHFA acknowledges that one of the current hindrances to loan modification programs is the difficulty associated with the transfer of borrower financial information and program documents to and from loan servicing operations. CalHFA will make every effort to design and build systems and workflows that improve and streamline current processes to decrease the complaints associated with current industry transactions.

Internal Controls

CalHFA will develop a comprehensive list of data elements and internal control points for each HHF Program from which we will perform regular fraud and risk mitigation protocols. The primary elements of any quality fraud mitigation program include timely identification, validation and verification of the processes core areas of risk. In this program, we will focus on validating, verifying and reviewing information provided by the borrower, loan originator, loan servicer, lender and other outside organizations that are a party to the transaction. Every effort will be made to identify fraudulent practices and/or entities. CalHFA will disseminate information to the U.S. Treasury through established HHF reporting practices.

The administrative services agreement between the CalHFA Mortgage Assistance Corporation and CalHFA will designate departments within CalHFA responsible for establishing and maintaining controls for the project. Control responsibilities for CalHFA staff will include:

- The Director of Administration will be responsible for ensuring CalHFA responds appropriately to the findings of the independent financial auditor. The Director of Administration is also a member of the Project Steering Committee.

- The CalHFA Comptroller will be responsible for ensuring the proper accounting of HHF Program funds; appropriately respond to findings of the independent financial auditor maintaining the general ledger for the project. The Comptroller is responsible to establish the necessary policies, procedures and systems enhancements necessary for the project's internal financial controls. Given the anticipated flow of funds for the Project, an accounting supervisor will directly manage staff that will properly account for program funds and their allocation.

- The internal controls will utilize an independent financial audit of all program funds. The independent audit firm is familiar with CalHFA and its accounting process and systems.

- CalHFA intends to leverage its current quality assurance plan and protocols to fulfill the program compliance and monitoring requirements for HHF.

CalHFA currently employs the accounting firm of Deloitte LLP as its external auditor. Given the limited nature of the HHF and associated funding, CalHFA will likely employ Deloitte or another outside auditing firm to provide internal auditing and HHF Program risk management support, rather than employing full-time staff directly. The statement of work for the outside auditing firm will include requirements to perform a pre-launch readiness assessment to review, evaluate, test procedures and make recommendations related to the operations process for all aspects of the program and the associated points of internal controls.

Readiness Assessment

The CalHFA Mortgage Assistance Corporation, the eligible entity for the project, will operate under an administrative services agreement with CalHFA to provide necessary CalHFA services and staff required for the project not procured from outside vendors. As described above, we anticipate the HHF Project Team will work with an outside auditing firm to perform the necessary assessments to determine when to implement components of the project. Additional resources will be added as necessary to assess readiness. The project team views readiness assessments and the related timelines as integrated components of the overall project plan. The project timeline is shown in Annex 1.

d. Staffing and Business Partners

It is expected that an initial wave of borrowers will contact counseling agencies, Centralized Processing Center (CPC) vendor staff, CalHFA or their servicer seeking to take advantage of one or more of the new HHF Programs, followed by a monthly inflow of borrowers that are experiencing financial hardships or have newly defaulted on their loans. Ostensibly, this will place an immediate demand on counselor, CalHFA, CPC and servicer staff once the HHF Programs are made available.

The staffing plan detailed below is based on CalHFA's Proposal for the HHF Programs and the efforts needed to develop, implement and support the programs for their expected duration. Due to the timeline for proposal development, the comprehensive operational impact is not yet fully understood. The following is CalHFA's best estimate of the staffing requirements for the HHF Programs, and includes estimates of the number of staff necessary during each year of the planned, eight-year program.

Role	Role Description	Number of Staff
Staffing		
Director, Oversight	Oversee the HHF Program operations, ultimately responsible for HHF Program delivery.	Part-time throughout program life
HHF Program Operations Manager	Responsible for the day-to-day operations of the HHF Program.	1 full-time during funds allocation and part-time after funds are allocated (Compliance & Reporting)
HHF Program Administration	Provides administration and clerical support to the HHF Program.	1 full-time during funds allocation and part-time after funds are allocated (Compliance & Reporting)
HHF Program Processing Oversight Manager	Responsible for managing the CPC vendor that processes the application packages from servicers for Hardest Hit funds.	1 full-time during funds allocation and part-time after funds are allocated (Compliance & Reporting)
HHF Program Call Center Oversight Manager	Responsible for managing the CPC vendor providing call center functionality to handle incoming calls from homeowners, servicers, counselors, and other housing stakeholders involved in the HHF Program.	1 full-time during funds allocation and part-time after funds are allocated (Compliance & Reporting)
HHF Program Compliance & Reporting	Responsible for managing reporting to CalHFA; CalHFA HHF Program reporting to the U.S. Treasury; ensure compliance with Treasury and internal compliance guidelines.	1 full-time during funds allocation and part-time after funds are allocated (Compliance & Reporting)

Role	Role Description	Number of Staff
HHF Program Compliance Research	Responsible for researching all applicable state, federal and local programs and ensuring the HHF Program processes, policies and practices remain current with industry practices – e.g., HAMP revisions.	1 full-time during funds allocation and part-time after funds are allocated (Compliance & Reporting)
HHF Program Underwriting Oversight Manager	Responsibilities include review of underwriting and program compliance of external servicers' loan modification analyses and CPC vendor processes.	1 full-time during funds allocation and part-time after funds are allocated (Compliance & Reporting)
HHF Program Training & Outreach Manager	Responsible for providing program training materials and information to various housing stakeholders (e.g., servicers, counselors, advocates) regarding the HHF Program, policies and processes.	1 full-time during funds allocation
Acting CIO – Information Technology (IT)	Oversee the delivery and support of technology components that enable the HHF Program.	Nominal effort throughout program life
IT Support Services Manager	Responsible for managing the staff providing proper management of technology components necessary to support the HHF Program.	Part-time support throughout program life
IT Support Services Staff	Responsible for delivering and maintaining the technology components that enable the HHF Program.	Part-time support throughout program life
Director of Administration	Oversees Fiscal Services Division; responsible for ensuring CalHFA responds appropriately to the findings of independent financial auditor.	Nominal effort during funds allocation

Role	Role Description	Number of Staff
Accounting Manager	Responsible for ensuring the proper accounting of HHF Program funds and appropriate oversight is provided of the commercial bank vendor; appropriately responds to findings of independent financial auditor.	Part-time during funds allocation
Accounting Supervisor / Oversight	Provides oversight of the commercial bank vendor to ensure the proper accounting of HHF Program funds; responds appropriately to findings of independent financial auditor.	Part-time during funds allocation
Director of Marketing	Oversee the communication and outreach for the HHF Program, ultimately responsible for communication delivery.	Part-time throughout program life
Marketing Staff – Communication & Outreach	Responsible for the planning, development and delivery of communication materials; collaboration with other housing stakeholders; outreach to potentially eligible homeowners.	Part-time throughout program life; anticipate the bulk of the effort will be during implementation and year 1
Marketing Staff – Web Site	Responsible for the delivery of outreach and communication materials via the CalHFA website and via other partner websites, as necessary.	Part-time throughout program life; anticipate the bulk of the effort will be during implementation and year 1
Director of Financing	Oversee the financial analyses of portfolios to help ensure the HHF Programs are properly targeted and effective.	Nominal effort during funds allocation
Financing Staff	Conduct detailed financial analyses of portfolios to help ensure the HHF Programs are properly targeted and effective.	Part-time during funds allocation

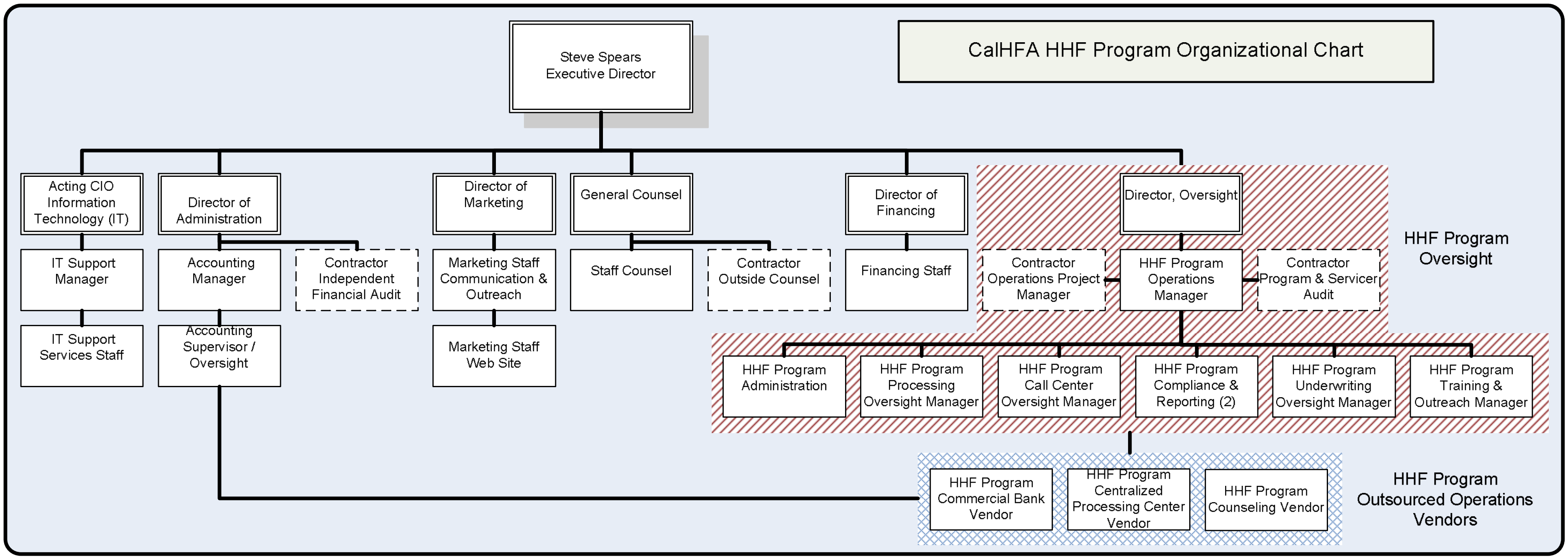
Role	Role Description	Number of Staff
General Counsel	Provides oversight to all legal issues and resolutions associated with the HHF Program and the Eligible Entity.	Part-time throughout funds allocation
Staff Counsel	Provides counsel on all legal issues and resolutions associated with the HHF Program and the Eligible Entity.	Part-time throughout funds allocation
Business Partners		
Audit Firm Contractor	Provides HHF Program with "one-time" pre-launch readiness assessment and annual independent financial audit. The anticipated Audit Firm Contractor has experience with CalHFA as its independent financial auditor.	Anticipate no more than the equivalent of one full-time contractor for the funds allocation period and part-time during Reporting & Compliance
Outside Counsel – Contractor	Supports the General Counsel and Staff Counsel, as necessary, on legal issues and resolutions associated with the HHF Program. The anticipated Outside Counsel Contractor has extensive real estate, banking and bankruptcy expertise and experience working with CalHFA, and supported the development of the HHF Program Proposal to the U.S. Treasury.	Part-time throughout funds allocation

Role	Role Description	Number of Staff
Contractor – Operations Project Manager	Fulfill the role of HHF Program expert; consult to the HHF Program Operations Manager in the delivery of the HHF Programs; proactively improve processes; provide knowledge transfer; support program processes. Contractor is playing a lead role in the development of the CalHFA HHF Program and has 24+ years experience in the mortgage servicing industry with a focus on default management and call center operations.	Full-time for the first year of the HHF Program
HHF Program Commercial Bank Vendor	Provides cash management, general ledger accounting and wire transfer capabilities; provides reporting to CalHFA and supports Treasury reporting; supports Treasury, independent auditor and CalHFA audits.	Full-time throughout funds allocation
HHF Program Centralized Processing Center Vendor	Provides HHF Program application triage, application processing and "decisioning" services; interacts with counselors, servicers and homeowners; provides reports to CalHFA to support oversight and Treasury compliance requirements; supports Treasury, independent auditor and CalHFA audits.	Full-time throughout funds allocation; provides reports and other information as necessary during Reporting & Compliance
HHF Program Counseling Vendor	Provides selection, training and oversight of counseling agencies participating in the HHF Program.	Full-time throughout funds allocation

CalHFA will attempt to utilize its own staff to fulfill as many program roles as possible. However, due to the urgency needed to make the HHF Programs available to eligible homeowners, and the amount of time it takes to recruit and hire staff employed by the State of California, some roles may be filled by knowledgeable contractors, as necessary. The anticipated HHF Program organizational chart is shown in Figure 2.d.

Figure 2.d below illustrates the organizational structure anticipated to be necessary to deliver the HHF Program. CalHFA may need to alter the organizational structure, as the operational impacts are better understood during implementation and operations.

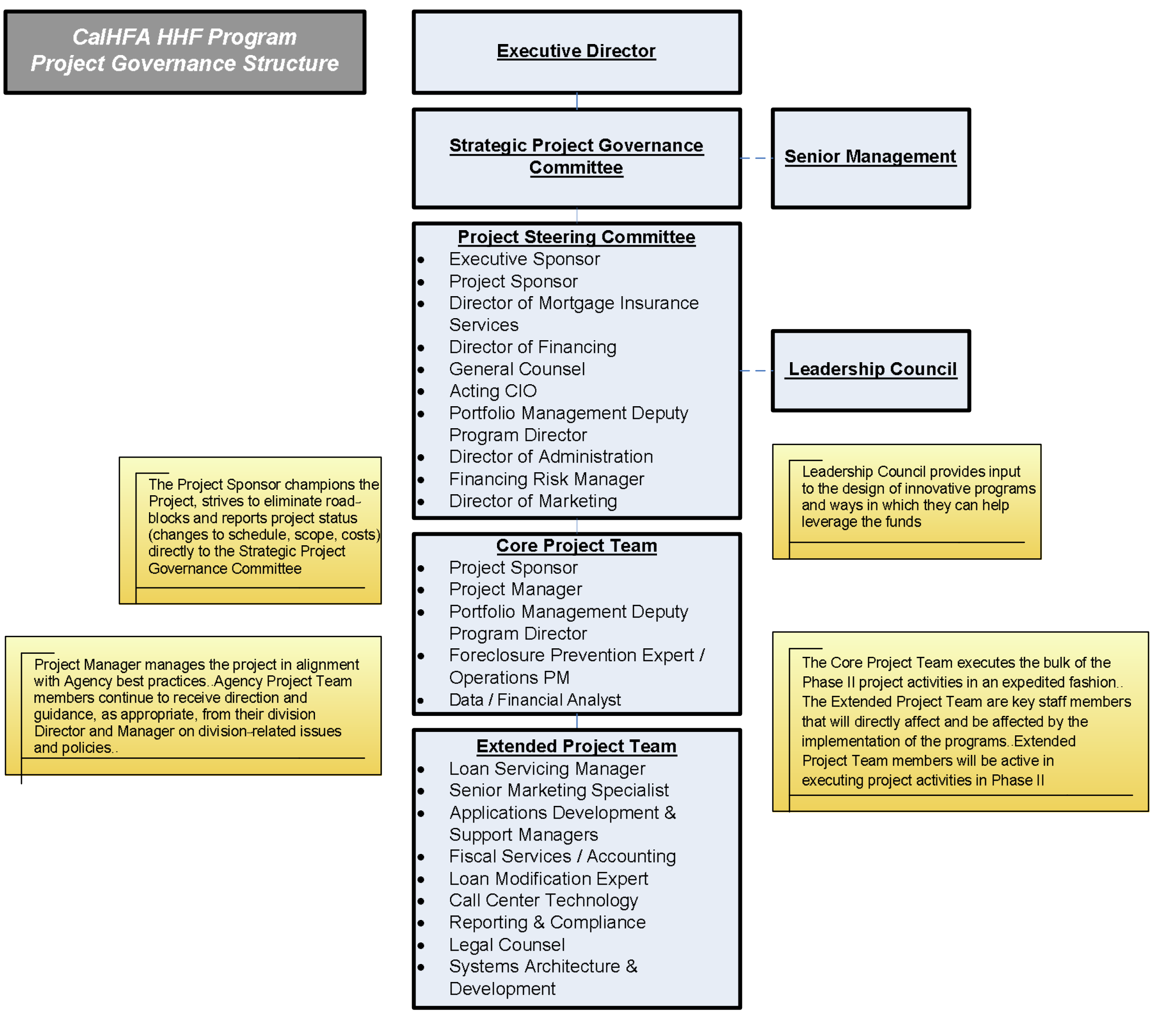
Figure 2.d: CalHFA HHF Program Organizational Chart



Project Procurement

As part of this project, the Project Team will procure business partners, products and services to support the objectives of the project. Typically, the procurement process for CalHFA mirrors many of the State of California's best practices. Although CalHFA is a state agency, CalHFA is not required to procure any of its contracts through a competitive bidding process. Neither is CalHFA generally subject to many of the restrictions or requirements associated with state contracting practices.

CalHFA, in conjunction with the designated entity, the CalHFA Mortgage Assistance Corporation, will enter into an administrative services agreement to provide substantial elements for the project. CalHFA will also follow the HHF Project Management Plan and CalHFA best practices in evaluating all entities and services procured for this project. To facilitate the decision-making aspects of the project, the following Governance model has been implemented:



The Core Project Team will work with the Steering Committee, including CalHFA's General Counsel and Director of Administration, to determine the best approach to procuring goods and services for this time-constrained project. The Project Team will work within the CalHFA best practices for procurement. The following lists the initial procurement strategies for the primary staffing and services needed to support the project. In all vendor procurement activities, the project team will develop statements of work or Request for Proposal criteria specific to the activity.

- Centralized Processing Center vendor: Rapid competitive bid with a "lite" RFP
  - Potential vendors may not provide the desired full range of processing and loan review services; individual vendors with the ability to perform specific tasks may be procured as an alternative
- Commercial Bank vendor: Leverage existing relationships to reach contractual relationship
- Audit: Extend or amend existing contract with Deloitte for auditing services (includes HHF Program "one-time" pre-launch readiness assessment and annual financial audit)
- Legal: Extend or amend existing contracts with Orrick Herrington and Sutcliffe (San Francisco/Sacramento) and Downey Brand (Sacramento)
- Counseling: Extend or amend existing contract with Rural Community Assistance Corporation (RCAC)

The Project Team will have the primary responsibility to solicit, evaluate and recommend vendors to the Project Steering Committee and conduct all required due diligence and site visits. The Project Steering Committee is responsible for making the final decision on the engagement of vendors for this project.

Project Issue and Risk Management

The structure of the project is designed to address issues and risks that could jeopardize the successful outcomes of the initiatives. Described below are both issue and risk management guidelines to address events and potential problems.

<u>Project Issue Management</u>

The Project Manager will utilize CalHFA best practices to facilitate the timely and thoughtful management of Project issues. In general, the approach to managing project issues requires consistent documentation of the issues that arise, assignment of responsibility for issue resolution, management of issues to ensure they are resolved in a timely manner and documentation of the resolution to each issue.

The Project Manager will implement a project issue log that will be used to track issues that arise during the course of the Project. The issue log will document the following at a minimum:

- Issue description
- Issue priority
- Issue status (e.g., open, pending, in process, closed)
- Impact of issue
- Plan for resolution
- Individual responsible for resolution
- Targeted and actual resolution dates
- Resolution action or result

The Project Manager will prioritize the issues and identify the issues that can be resolved by the Core Project Team, Extended Project Team or Project Sponsor and those issues that require Project Steering Committee guidance.

Issues that are identified as "high" priority will be brought promptly to the attention of the Project Sponsor and Project Steering Committee, as necessary. Issues will be reported on at least a monthly basis to the Project Sponsor and to the Project Steering Committee.

Project Risk Management

The Project Manager will consistently monitor and report on Project risks throughout the life cycle of the Project. Proactive project risk management entails processes and activities that facilitate the identification and analyses of project risks and helps to minimize the consequences of risk events through carefully planned risk avoidance, response and contingency actions.

The primary objectives of risk management are:

- To maximize the benefits of the Project and lessen the project impacts caused by the occurrence of adverse events through thoughtful management and communication of project risks.
- A realistic understanding of project risks by the Project Team and the Steering Committee.
- For each significant project risk, a reasonable plan of action is developed that is understood and approved by the Core Project Team and Steering Committee.
- An assigned owner of project risk responsible for monitoring the risk and ensuring the planned response action is executed.
- Ongoing monitoring of project risk events throughout the project life cycle.

- Steady maintenance of project risk documentation throughout the project life cycle.
- Open communication of project risks with project stakeholders.

The five basic processes of risk management that will be actualized are:

1. Risk Identification - Determine the risks that may affect the Project and document their characteristics in the Risk Management Matrix (i.e., a spreadsheet used to manage risk characteristics and planning information for the Project).

2. Risk Evaluation - Determine which project risks have the greatest impact on the Project and/or the Agency and the probability of the risk being realized.

3. Risk Response and Contingency Planning – Develop the planned responses for each risk and the contingency plans should the risk responses not be fully effective.

4. Risk Response Control – Monitor for potential risk events, enact planned risk responses and contingency plans and track the outcomes.

5. Risk Communication –Communicate identified risks and risk responses/contingencies and changes in Project risk status.

The Project Manager will report the status of the highest priority risks to the Project Steering Committee during each Project Steering Committee meeting.

Conflicts of Interest

The Core Project Team engaged for the Project will be required to complete the California Conflict of Interest Form 700. This form is produced by California's Fair Political Practices Committee (FPPC) and is the standard disclosure document used for all state contracts. Form 700 disclosures must be filed annually and the Core Project Team and the General Counsel will review all conflict of interest filings.

HHF Program outsourced operations vendors will be required to provide confirmation they have read and comply with the U.S. Treasury Conflict of Interest guidelines documented in 31 CFR Part 31.

All disclosures will be filed with the General Counsel's Office at CalHFA or in the Project team library.

Key Executive Biographical Information

L. Steven Spears, *Executive Director*, appointed April 2010. Previously he held the position of Chief Deputy Director beginning December 2006 and Acting Executive Director since December 2008. Prior to that, Steve was the principal consultant of the SAER Group (2003-2005), Managing Director for Metropolitan West Financial and Strategic Services (1998-2003), and Deputy State Treasurer to former State Treasurer Matthew Fong (1995-1998). Education: B.S., Accounting, Southern Missionary College – Collegedale, Tennessee. M.B.A., Finance, University of Tennessee – Knoxville, Tennessee. Juris Doctor, University of the Pacific; McGeorge School of Law – Sacramento, California. Pacific Law Journal: Comment Staff, Assistant Managing Editor.

Bruce D. Gilbertson, *Director of Financing* since August 2004. Bruce previously served as Comptroller from October 1996 until July 2004, Financing Officer from January 1994 until September 1996, Mortgage Loan Accounting Administrator from February 1988 until December 1993. Bruce also held various accounting positions with the California State Department of Transportation (1978-1988). Education: B.S., Business Administration, California State University, Sacramento.

Thomas C. Hughes, *General Counsel* since February 2001. Mr. Hughes had been a partner in the Sacramento law firm of Kronick, Moskovitz, Tiedemann & Girard (1982-2001), practicing real estate and business law. Prior to that time, he practiced with the firm of Iwama & Castro (1978-1982).

Howard Iwata, *Director of Administration since January 2009*. B.A., Political Science, UC Berkeley. Previously: Bureau Chief, State Controller's Office (2005-2008); Assistant Executive Director, San Francisco Bay Conservation and Development Commission (1997-2005); Division Administrative Officer, Department of Fish and Game (1991-1997); and various administrative positions for a variety of State Agencies (1980-1991).

Charles K. McManus, *Director of Mortgage Insurance* since December 2006. B.A. Harvard University; M.B.A. Harvard Graduate School of Business Administration. Previously: Acting Director of Mortgage Insurance for CalHFA (May 2006); Owner McManus Financial Services (2005 to 2006); SVP Branch Operations for Home American Mortgage (2005); VP Retail Mortgage Production for Ohio Savings Bank FSB (2003-2004); SVP National Account for NCS (2002 -2003); VP Real Estate for American Invsco (2001-2002); SVP Variable Annuities for Annuity Investors Life Insurance (1995-2000); Various mortgage banking and consulting positions (1991-1994);Chief Operating Officer of Mortgage Guaranty Insurance Corporation (1980-1991); SVP Marketing of Verex Mortgage Insurance (1975-1980).

e. Administrative Expenses

CalHFA's intention is to allocate the HHF monies in a fashion that allows the maximum amount to be spent directly on assisting qualified homeowners. However, responsibly deploying approximately $700 million to California homeowners in financial crisis does not come without expense – both to ensure that the dollars are being spent appropriately and that proper reporting and oversight takes place, as required by the U.S. Treasury.

Indeed, each of the HHF Programs will have a variety of administrative expenses separate and apart from the actual funds going toward the affected homeowners. These expenses include the one-time expenses of implementation and the ongoing expenses of administering the HHF Programs. The one-time expenses are associated with designing and implementing the programs and systems needed to support the HHF Programs in production and to meet the reporting and compliance requirements of the U.S. Treasury. The ongoing administrative expenses are those expenses that will be incurred to support the operations to deploy nearly $700 million in HFA monies.

The estimated administrative expenses are based on CalHFA's understanding, at the time of this Proposal, of the HHF Programs and the efforts needed to implement and execute the programs throughout their anticipated duration. The expense estimates will be adjusted as the details of the programs and operations are more fully developed.

Table 2.e(i) identifies the estimated expenses CalHFA anticipates it will incur to implement the HHF Programs. Some of the primary expenses are:

- Staff and consulting services necessary to implement the new programs and associated business processes and compliance and auditing functions
- Centralized Processing Center vendor one-time implementation costs including system enhancement, program development, staffing and training
- Initial marketing and outreach efforts
- Establishment of an "Eligible Entity"
- Establishment of facilities to support oversight of outsourced operation vendors

Table 2.e(i): One-Time Expense of Implementing HHF Programs

	Account/Detail	Estimated Expenses
Personal Services:		
	Salary	$242,343
	Personal Services Total:	**$242,343**
General Expenses:		
	Supplies/Materials	$15,650
	Space Lease	$9,000
	Miscellaneous	$850
	Moves/Storage	$9,000
	General Expenses Total:	**$34,500**
Communications:		
	Advertising/Press Services	$200,000
	Postage/Mailing/Courier Svcs	$0
	Telephone	$4,156
	Communications Total:	**$204,156**
Consulting Services:		
	IT	$100,160
	Marketing	$0
	Audit	$37,575
	Financial	$0
	Legal	$200,000
	Program	$1,709,150
	Other	$147,180
	Consulting Services Total:	**$2,194,065**
Information Technology:		
	Rental/Leases/Maintenance	$0
	Supplies/Miscellaneous	$0
	Software Purchases/Maintenance	$15,000
	IT Expendable Equipment	$9,810
	IT Non-Expendable Equipment	$53,000
	IT Total:	**$77,810**
Training:		
	Professional Development	$0
	Training Total:	**$0**
Travel:		
	In-State	$10,000
	Out-of-State	$7,500
	Travel Total:	**$17,500**
Equipment:		
	Expendable Equipment	$0
	Non-Expendable Equipment	$27,704
	Equipment Total:	**$27,704**
	TOTALS:	**$2,798,077**

The anticipated ongoing administrative expenses for the HHF Programs are listed in Table 2.e(ii). These expenses are based on the assumption that all funds will be allocated within the first three years of the program and that reporting and compliance functions will continue, with lighter staffing, for another five years for a grand total of eight years. Some of the primary expenses are:

- HHF Program outsourced operations vendors
- Consulting services to support quality assurance, audit, legal and oversight functions
- Marketing and outreach to servicers, borrowers and other housing stakeholders
- Payment for counseling services for those borrowers where counseling is required
- Lease of space to house HHF Program staff and associated facilities expenses
- Credit reports and property valuations in support of applicant processing and quality control efforts
- In-state and out-of-state travel expenses to support ongoing outreach, training and meetings with other HHF Program stakeholders

Table 2.e(ii): HHF Programs Operational Expenses

	Account/Detail	Estimated Expenses
Personal Services:		
	Salary	$5,539,410
	Overtime	$180,000
	Personal Services Total:	**$5,719,410**
General Expenses:		
	Supplies/Materials	$59,500
	Space Lease	$432,000
	Miscellaneous (e.g., Credit Reports, Appraisals, Counseling)	$12,435,000
	Insurance	$800,000
	Recording Fees	$4,890,780
	ACH/Wire Transfer Fees	$1,260,075
	Moves/Storage	$0
	General Expenses Total:	**$19,877,355**
Communications:		
	Advertising/Press Services	$300,000
	Postage/Mailing/Courier Svcs	$135,000
	Telephone	$63,720
	Communications Total:	**$498,720**
Consulting Services:		
	IT	$0
	Marketing	$0
	Audit	$1,427,850
	Legal	$315,630
	Program	$20,400,300
	Other	$286,000
	Consulting Services Total:	**$22,429,780**
Information Technology:		
	Rental/Leases/Maintenance	$68,750
	Supplies/Miscellaneous	$0
	Software Purchases/Maintenance	$84,500
	IT Expendable Equipment	$0
	IT Non-Expendable Equipment	$0
	IT Total:	**$153,250**
Training:		
	Professional Development	$90,000
	Training Total:	**$90,000**
Travel:		
	In-State	$63,000
	Out-of-State	$31,500
	Travel Total:	**$94,500**
Equipment:		

	Expendable Equipment	$0
	Non-Expendable Equipment	$0
	Equipment Total:	**$0**
	TOTALS:	**$48,863,015**

Based on CalHFA's understanding of the HHF Programs at the time of this Proposal, the current estimate for one-time implementation and ongoing operational expenses comprises approximately 7% of the HHF monies allocated to California. In assigning funds to the different HHF Programs (see Section 2.b, Exhibit 1.b(iii)), CalHFA assumed that the total administrative costs to be realized would be 7.5% of the HHF monies allocated to California; therefore, there is about $800,000 difference between the two presented values.

Table 2.e(iii) shows the annual anticipated implementation and annual operational expenses (i.e., starting from the time the first HFA Program monies are allocated) throughout the expected eight years of the program. CalHFA began incurring implementation expenses following the U.S. Treasury announcement, and these expenses will continue to be incurred until the HFA Program is "live" (anticipated to be in the October 2010 timeframe). Expenses are projected to be significantly heavier in the first year of operations as fully 50% of the applications are expected to arrive in the first year. Expenses are shown to taper off during the anticipated three years of funding allocation and into the final five years of reporting and compliance.

Table 2.e(iii): Timeline of Implementation and Operational Expenses

Implementation	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
$2,798,077	$27,718,860	$13,631,316	$9,087,544	$1,027,589	$685,059	$570,883	$570,883	$570,883

f. Overview of Risk Management and Fraud Prevention

Monitoring Program Performance

In establishing and deploying each of the HHF Programs described throughout this Proposal, CalHFA MAC is mindful of the significant public interest at stake in monitoring how the funds are deployed and the impact the HHF Programs will have on the foreclosure problem in California.

In addition, given the fact that the funds being allocated to CalHFA MAC were appropriated by the U.S. Treasury from EESA, CalHFA MAC understands that it will have significant reporting responsibilities. CalHFA MAC will work with servicers and outsourced operations vendors to develop processes to collect and transmit mortgagor loan transaction and property data to ensure compliance with the HHF Programs and to measure its effectiveness. CalHFA MAC will adhere to data and reporting elements provided by U.S. Treasury.

CalHFA MAC intends to leverage CalHFA's current quality assurance plan and protocols in fulfilling the compliance and monitoring requirements that come with receiving the monies from the Hardest Hit Fund. Currently, CalHFA MAC performs quality assurance, compliance and audit functions for its own lending and loan servicing departments and for other Agency initiatives. CalHFA MAC will build customized systems and protocols to track, store and report data.

Compliance

CalHFA MAC will establish protocols to comply with all requirements under EESA, including but not limited to, allowing full compliance and oversight, as necessary, by the U.S. Treasury, the Comptroller General of the United States, Government Accountability Office, Congressional Oversight Panel, and the Special Inspector General of the Troubled Asset Relief Program as to the application of any EESA funds. CalHFA MAC will engage Deloitte LLP to conduct a Readiness Assessment of the HHF program about one month prior to statewide launch to ensure preparedness and compliance.

Additional elements of these compliance efforts will include:

- Granting access to these governmental entities all books, communications and records regarding the use of funds given to CalHFA MAC under the Hardest Hit Fund, upon their reasonable request.

- Designing programs, establishing monitoring mechanisms, and implementing a system of internal controls that minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency and effectiveness.

- Establishing a system of internal controls that encompasses the CalHFA MAC's processes, their business partnerships and relationships and any constituency being aided through these Programs.

- Administer Pilot Program (to commence about one month prior to statewide launch) using CalHFA low-to-moderate income residential mortgage loan portfolio to further test readiness and compliance.

- Test, certify, and provide an independent verification of Pilot Program success and readiness prior to statewide launch.

- Provide verification of effectiveness of internal controls to Treasury on an annual basis. CalHFA MAC will hire Deloitte LLP to perform this function.

- Provide CalHFA MAC audited financial statements to the U.S. Treasury on an annual basis. CalHFA MAC will hire Deloitte LLP to perform this function.

CalHFA will utilize a multi-phase compliance methodology for the HHF Programs. We will collect and analyze transaction level data such as borrower income, liabilities, hardship, reason for delinquency, occupancy status, loan amount, origination date, lien status, property value, and loan due date to perform pre- and post-funding reviews that ensure borrowers meet HHF eligibility criteria; general and program specific.

The purpose of the compliance review is to verify the existence and accuracy of HHF transactions and documents as it pertains to program eligibility, distribution of funds, and documented policies and procedures. As stated throughout this Proposal, CalHFA is required to obtain an independent verification that proper controls be in place and maintained prior to and during program implementation. On no less than a quarterly basis, we will employ a 10% random sample review on post-funded transactions. CalHFA will hire qualified audit and control professionals to perform this function.

g. <u>Tracking/Reporting</u>

Measuring performance will be critical in determining the impact that the HHF Programs have on the mortgage crisis affecting California. As part of that effort, CalHFA intends to work with Treasury to develop a variety of custom reports required to manage and monitor the HHF Programs. CalHFA intends to customize these reports not only as appropriate for the specific HHF Program, but also to comply with all requirements under EESA. Some of the detail that will be contained in CalHFA's HHF Program reports will include, but not be limited to the following summary and detailed data:

- Lender
    - Program participation rate
    - # and $ for each program
    - Program performance - approve & cancel rate
    - Loan performance - # of post-program current/delinquent loans
    - Leveraged dollars per program
    - Average LTV, borrower income

- By county
- Servicer
  - Program participation rate, %, # and $
  - # and $ for each program
  - Program performance - approve & cancel rate
  - Loan performance - # of post-program current/delinquent loans
  - Average LTV, borrower income
  - By county
  - Leveraged dollars per program

- Borrower
  - Average income
  - Average LTV
  - By county
  - Program type
  - # and $ Contribution, if applicable
- Program Data
  - # and $ for each program
  - Per household
  - Borrower income level
  - # Approved & Denied transactions, income and county
  - # Program requests per household
  - Average monthly payment savings when combined with modification program
- Trend and Market Data will be developed, tracked and reported.

The data elements for these programs have not yet been finalized with Treasury. The population of the data elements will depend on the requirements of Treasury and the capabilities of CalHFA to obtain data from participating servicers, and those discussions are not complete. However, generally, compliance reporting and data elements will be similar to data supplied under the HAMP program. It is anticipated that compliance reporting will be part of the statement of work for the independent auditor engaged for this program. The independent auditor will define the appropriate sampling method based on the reporting and compliance requirements. While HHF Program results will be evaluated by CalHFA, it is anticipated that an outside consulting firm will be engaged to conduct audit and compliance reviews. If appropriate, CalHFA will make efforts to coordinate selection of such outside consultants with other HFAs to minimize overall administrative expenses of the Hardest Hit Fund.

Conclusion

CalHFA believes the HHF Programs outlined in this Proposal will offer California homeowners, their lenders and servicers, as well as other stakeholders affected by the foreclosure crisis, the unique opportunity to leverage federal funds while promoting and advancing the very purposes of the Hardest Hit Fund – preventing avoidable foreclosures and helping to stabilize home values in California.