CALIFORNIA HOUSING FINANCE AGENCY

MORTGAGE INSURANCE SERVICES

BIENNIAL PROGRAM EVALUATION REPORT

Prepared by the
California Housing Finance Agency

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Table of Contents

Introduction

This biennial program evaluation report on the California Housing Loan Insurance Fund (CaHLIF) Programs, administered by the California Housing Finance Agency (CalHFA), is submitted in accordance with the statutory reporting requirements of Section 51622 of the Health and Safety Code. The statute provides that the report shall discuss the program's effectiveness in relation to cost and include any recommendations and suggested legislation, if any for improvement to its programs.

CalHFA was created in 1975 as California's affordable housing lender. In that capacity, the Agency provides affordable loan products for first time low- to moderate-income homebuyers and developers of affordable rental and special needs housing. In 1977, CalHFA was statutorily authorized to offer mortgage insurance programs for single family or multifamily loans and for construction loans where the underlying loan targets low-to-moderate income homeowners or renters, and to offer bond insurance.

CalHFA's Mortgage Insurance programs are funded by CaHLIF, a public enterprise fund. This fund is not in any way guaranteed by CalHFA or the State of California. As such, neither CalHFA nor the State of California is liable for any claims against CaHLIF.

CalHFA Mortgage Insurance Overview & Performance

Mortgage insurance protects lenders and investors from potential financial loss should a borrower default on a mortgage. The mortgage insurance industry acts as a link between the primary mortgage originators and the capital markets, such as Fannie Mae, Freddie Mac or other Wall Street investment facilities. Mortgage insurance facilitates investment in high loan-to-value mortgages in the capital mortgage market and expands homeownership opportunities by enabling qualified borrowers to buy homes typically with 5% or 10% down payment, rather than more historically standard 20% of purchase price.

The mission of CalHFA's Mortgage Insurance program has been to expand homeownership opportunities for eligible California homebuyers by providing low cost mortgage insurance programs specifically designed for first-time, low- and moderate-income homebuyers who have limited income for mortgage payments and/or lack sufficient savings for a standard 20% down payment.

Since its creation in 1977, CalHFA's Mortgage Insurance programs have insured 35,655 loans with an origination loan balance of $6.7 billion. As of August 31, 2024 there were 142 loans insured by the Fund for a balance of $30.48 million and a total insured risk, or risk-in-force, of $11.8 million.

In March 2003, CalHFA as administrator of the Insurance Fund entered into a reinsurance agreement (the "Genworth Reinsurance Agreement") with Genworth Mortgage Insurance Corporation ("Genworth") (formerly known as General Electric Mortgage Insurance Corporation) under which Genworth reinsured eligible qualified Mortgage Loans of specified types meeting specified underwriting standards insured by the Insurance Fund each year for a reinsurance term ending ten years from the beginning of the calendar year of origination. Under the Genworth Reinsurance Agreement, the Insurance Fund retained a 25% share of the insured risk under the primary mortgage insurance coverage written on any Genworth reinsured loan and Genworth retained the remaining 75% of insured risk on such loans whose reinsurance terms had not expired. The insurance Fund retained 31% to 35.5% of all premiums collected for Mortgage Insurance on Genworth reinsured loans and Genworth received the remainder of such premiums. The reinsurance terms for all loans has expired.

Increased claims over the past several years, due to the negative economic trend, have fully depleted CaHLIF's assets, and CaHLIF is no longer able to fully pay claims. By the fourth quarter of 2009, CaHLIF's statutory surplus capital fell below that required to insure new loans. CaHLIF then withdrew as an insurer of new business, and in the third quarter of 2010 withdrew its request to be rated by Standard & Poor's. In the fourth quarter of 2011, CaHLIF had completely depleted its loss reserve and began scheduling its portion of claim settlement payments from premium funds as they were received. As CaHLIF receives premiums, the funds are only used to pay administrative costs and to pay claims. CalHFA expects the receipts of ongoing net premiums should be available to pay claims through 2026. Premiums received for 2022 and 2023 were $459 thousand and $286 thousand, respectively.

Financial Summary

The financial statements of the Insurance Fund for the years ended December 31, 2023, and 2022 are attached to this report. Such financial statements reflect, at December 31, 2023, total assets of $41thousand and total liabilities of $39.9 million and a resulting negative net position (i.e., a deficit) of $39.8 million. As of December 31, 2023, the Insurance Fund's cash and cash equivalents were not sufficient to meet the Insurance Fund's total anticipated cash requirements to pay its obligations in 2024.

CaHLIF Challenges

Since the downturn in the economy and the negative impact on housing that started in approximately 2008 CaHLIF has faced many challenges, which include:

- The depletion of capital resulting from an unprecedented number of claims filed.
- Decrease in statutory surplus capital causing CaHLIF to withdraw as an insurer of new business
- Downgrades in S&P ratings, eventually leading to CalHFA withdrawing CaHLIF's rating
- Reinsurance by Genworth expired on December 31, 2017, increasing CaHLIF's risk resulting in an increased percentage of claims owed by CalHFA.
- The lack of potential new capital infusion to support existing insurance obligations.

- Declining premiums will eventually be less than the cost to administer the fund.

Recommendations and/or Actions Taken

CalHFA has concluded that the CaHLIF program is in a wind-down mode primarily due to the lack of potential new capital infusion to support its programs. CalHFA has designed a plan to gradually wind-down the program. The plan is as follows:

- In August 2011, CaHLIF implemented a payment plan in which approved claims are placed in a queue in the order in which they have been received from Genworth and as premiums are received the claims are paid on a "first-received, first-paid" basis.

- Also in August 2011, to maintain the orderly administration of the fund, CaHLIF implemented a plan to pay administrative and operating expenses, while minimal, prior to the payment of claims in the queue. In addition, CalHFA as administrator of CaHLIF has contracted with Genworth to administer all mortgage insurance services, including loans that no longer have reinsurance.

- On June 27, 2016 Senate Bill No. 837 was approved by the Governor. The bill requested the removal of the statutory requirement for CalHFA to have a Director of Insurance for CaHLIF, instead allowing existing agency staff to oversee the administrative responsibilities for the winding down of the Insurance Fund, potentially saving the Insurance Fund $170,000 annually, which would allow more claims to be paid.

- On June 27, 2016 Senate Bill No. 837 was approved by the Governor. The bill requested that the statutory requirement for an annual audit of the Fund be replaced with an "agreed upon procedures" engagement of the fund's books and accounts, saving the Insurance Fund $36,700 annually, which would allow more claims to be paid.

- On August 1, 2017 CalHFA amended its agreement with Genworth to provide for continuing administration of loans that are no longer reinsured with Genworth.