

Little Hoover Commission Written Testimony

California Housing Finance Agency (Cappio, Executive Director)
Scheduled for Public Hearing on April 24, 2012

Introduction: Good Morning Chairman Hancock and Commissioners, I appreciate the opportunity to testify before you today about the Governor's proposed plan to consolidate and align the California Housing Finance Agency and the Housing and Community Development Agency. From the beginning of my service with the Governor, he has been focused on gaining efficiencies and increasing effectiveness in the delivery of services for California citizens. The proposal now before you is a direct and tangible outcome of this objective. I am pleased to be able to play a small part in this effort. During the next few minutes, I will focus on four themes:

- Provide a brief background about CalHFA's unique position in the affordable housing landscape;
- Present a rationale in support of the Governor's Reorganization Plan;
- Provide an overview of the advantages and risks that would need to be considered;
- And summarize for the Commission that while this plan on its face will result in increased effectiveness and efficiencies, there is more work ahead in assuring good outcomes. In other words, the devil is in the details of carrying out the plan and assuring that current organizational structures move in an adaptive and positive manner.

First, a brief background about CalHFA: In 1975, the California Housing Finance Agency ("CalHFA") was created as the State's affordable housing bank. Our mission has been to make affordable single family and multiple family housing available to persons and families of low and moderate income.

While considered a state agency, by statutory authority, CalHFA functions as a business with significant operating and financial independence. Our business model is totally self supporting – we receive no tax dollars or Legislative appropriations. Through the sale of tax exempt bonds, we fund ourselves on the spread between the cost of funds and the rates on the loans we make.

The intention of this independence was to provide the agency the tools and nimbleness necessary to effectively navigate the financial and capital markets. Realizing that mortgage banking is an inherently risky business, the management of those risks is essential. This independence also insulated the State from these risks. Our bonds are separately rated.

CalHFA is governed by a Board of Directors, consisting of 11 voting and 3 non-voting members. Of the voting members, 6 are appointed by the governor, 3 are ex-officio, and 2 are appointed by the Legislature.

Rationale for the Governor's Reorganization Plan: CalHFA and HCD have the same essential mission: to provide leadership, programs, and policy direction to meet and expand affordable housing opportunities for Californians. We do so with different but complementary values and

strengths. For CalHFA – it has been our independence, access to private capital markets, management of financial risk and strong underwriting and transactional focus. We are the lending arm of this structure. For HCD, their policy focus, grants and subsidy programs, Federal program and funding expertise and building codes and standards have been key strengths.

The Governor's proposal keeps both of these agencies intact. No authority would be changed and CalHFA would maintain its independence and separate board governance structure.

I believe the opportunities lie in how we work together. CalHFA and HCD have had strong collaborative partnerships in the past with many successful programs and projects. However, throughout over 30 years of operations, program and operational redundancies have grown up – and this reorganization plan will provide a focused framework to:

- Figure out stronger connections and linkages in programs so we are providing services in the most efficient and effective manner;
- Review and reorder certain operational areas, particularly asset management, financial assistance programs and housing policy;
- Review management structure and governance to create a more unified vision and mission for affordable housing and strategic growth for California

Overview of the advantages and risks that would need to be considered: The key advantages of this effort include a focused review of areas of consistent connection and collaboration: asset management, programs and lending and housing policy.

CalHFA's financial independence is paramount to continued success in keeping our bond rating above investment grade and operating successfully in the private capital markets. And from my experience in similar efforts in the past, we will need to be mindful of not diluting the strengths and unique values each agency brings to the affordable housing table.

Conclusion – why this plan will work and why more work is necessary: We are in the midst of huge changes in the affordable housing world with regard to funding and providing the programs that make the most sense and have the greatest positive impact within the currently constrained resource environment.

Both CalHFA and HCD are working on a change management strategy to assure that the proposed changes will be successful and provide the basis for adapting our respective structures and providing the vision for change. Interagency working groups have been established for the three areas of opportunities outlined, and we need to be focused and consistent in leading these groups to successful recommendations and implementation of changes.

We have a solid set of frameworks to make this effort work to improve performance and increase tangible outcomes. We all have been witness to how providing safe, decent and affordable housing changes people's lives – we are set to continue to do this as California continues to grow and change.

This ends my comments – I would be glad to address any questions or concerns.

