THE BOND BUYER

California housing agency’s new multifamily credit is well-received

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The inaugural sale of a California Housing Finance Agency credit that pools multifamily housing loans received a welcome reception from the market.

It was the first time in nearly a decade that CalHFA has sold bonds under a party indenture for a pool of multifamily permanent loans, and as "a new California credit, the bonds received significant market attention," said Erwin Tam, CalHFA's director of financing.

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California Housing Finance Agency

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

The California State Treasurer's Office was agent of sale. Morgan Stanley was senior manager and Barclays Capital was co-senior manager. Ramirez & Co., Bank of America, and Citigroup Global Markets as co-managers rounded out the syndicate.

Morgan Stanley and Barclays priced on Aug. 8 CalHFA's $84.9 million in bonds in two tranches: a $54.9 million series A-1 and a $30 million series A-2.

The series A-1 serials priced to yield between 3.20% to 4.25% in maturities ranging from 2024 to a 2038 term bond.

The series A-2 bonds are structured as term bonds due in 2063 with a mandatory tender of Aug. 1, 2026.

CalHFA, founded in 1975, is a state-chartered self-sustaining agency that shares certain functions with the state's housing department, but has independent authority on its bond and housing loan programs.

In recent years, CalHFA issued bonds "for individual projects under stand-alone indentures," Tam said. But the agency has experienced a significant increase in multifamily production over the past few years.

It needed "a new, modern and flexible indenture to finance these projects and dozens of new projects currently in construction," he said.

"We spent the past year drafting the new indenture and CalHFA will realize cost savings and efficiency in future bond issuances," he said.

CalHFA will use the proceeds of the affordable housing revenue bonds to refinance the agency's previous financing of six permanent mortgage loans for six multifamily rental housing developments. The agency issues loans through this program to provide acquisition, construction and permanent financing for multifamily apartments for people with low to moderate incomes. The bonds under the indenture provide permanent financing for such developments.

Individual investors from California placed orders for more than $24.7 million and the deal saw $232.7 million in professional retail orders, Tam said.

"The bonds were oversubscribed at the end of the retail order period, which allowed for the lowering of yields prior to the acceleration of the institutional order period — and institutional investors placed more than 30 orders," he said.

Tam said CalHFA priced 13 to 20 basis points lower in yield compared to the triple-A rated Florida Housing bonds pricing on the same day, and with lower spreads than other HFAs, such as Nebraska, North Carolina, Rhode Island and Maryland.

The bonds received Aa2 ratings from Moody's Investors Service and AA from S&P Global Ratings. Both assigned stable outlooks.

"The Aa2 rating on the new series bonds is based on the very strong overcollateralization levels (1.31 PADR), high quality and seasoned assets as well as the flexibility of the indenture to fund credit enhanced multifamily loans (largely expected to be FHA Risk Share loans) as well as non-credit enhanced loans," Moody's analysts wrote in a July 13 ratings report.

Of the stable outlook, Moody's said it "expects the strong overcollateralization, loan portfolio performance, and the active issuer management to protect the bond program from potential loan losses."

S&P provided a second-party opinion confirming a sustainability bond designation, which indicates alignment with the International Capital Market Association Sustainability Bond guidelines and the UN sustainable development goals for green and social bond expenditures.

There were many factors driving interest in the bonds, including "increased attention from potential retail and institutional investors due to the sustainability designation," Tam said.