<u>Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets</u>
<u>("HFA Hardest-Hit Fund")</u>

Frequently Asked Questions

March 5, 2010

On February 19, 2010, President Obama announced $1.5 billion in funding for innovative measures to help families in the states that have been hit the hardest by the aftermath of the burst of the housing bubble. States where house prices have fallen more than 20% from their peak are eligible for this funding. Such price declines, coupled with the effects of high unemployment, mean that many working and middle-class families in these areas are facing serious challenges. These funds will be utilized for innovative programs being developed by state Housing Finance Agencies to address these challenges. Below are some answers to frequently asked questions about this program.

What are HFAs and what do they do?

Housing Finance Agencies or HFAs are agencies or authorities created by state law that are charged with helping persons and families of low or moderate income attain affordable housing. HFAs provide responsible and affordable housing resources to low and moderate income borrowers who might not be served elsewhere. Some of their primary activities include: financing mortgages at low rates, funding development of affordable rental properties and refinancing or modifying mortgage loans for at-risk borrowers. HFAs have established a strong track record of offering effective foreclosure prevention and sustainable homeownership opportunities for working families. According to the National Council of State Housing Agencies (NCHSA), its member agencies have provided mortgage financing for nearly 3 million homes in America and helped finance construction of approximately 3 million affordable rental properties. Combined, State HFAs typically fund about 100,000 mortgages a year.

What is the objective of the HFA Hardest-Hit Fund?

The HFA Hardest-Hit Fund was designed to allow the maximum possible flexibility to HFAs in designing locally-focused programs that address the needs of a specific state or region within a state. All programs must have foreclosure prevention and housing market stability as their primary objectives.

How is the HFA Hardest-Hit Fund related to the Obama Administration's Making Home Affordable program?

The HFA Hardest-Hit Fund was announced on February 19, 2010 to help address the housing problems in the states that have experienced the most severe home price declines. It is designed to complement and add to the framework of other Administration policies announced over the past year to stabilize the US housing market and keep American homeowners in their homes.

- On February 18, 2009, President Obama announced the *Homeowner Affordability and Stability Plan* – a comprehensive set of programs designed to stabilize the U.S. housing market and help keep millions of American homeowners in their homes. As part of this plan, the Administration provided additional support to Fannie Mae and Freddie Mac (collectively called "Government Sponsored Entities" or "GSEs") to ensure continued confidence in those institutions and continued access to affordable mortgage credit across the market. The plan included expanded refinancing flexibilities for the GSEs, which, along with historically low interest rates, have helped over four million American homeowners to refinance, saving an estimated $150 per month on average and more than $6.8 billion in total. Another component of the plan, the Home Affordable Modification Program (HAMP), has provided over 1 million struggling homeowners a second chance to stay in their homes by modifying their existing mortgage to achieve an affordable and sustainable monthly payment. Through HAMP each homeowner in a modification is saving an average of $500 per month because of their reduced monthly mortgage payments.

- On October 19, 2009 the Administration announced the Housing Finance Agencies Initiative to support state and local housing finance agencies in providing sustainable homeownership and rental resources for working Americans nationwide. Over 90 HFAs across 49 states participated in the program, supporting $15.5 billion in HFA financing at no expected cost to the taxpayer.

- The First Time Homebuyer Tax Credit has helped hundreds of thousands of responsible Americans purchase homes.

- The American Recovery and Reinvestment Act of 2009 supported the Low Income Housing Tax Credit market by creating an innovative Tax Credit Exchange Program ("TCEP") and providing gap financing through the HUD Tax Credit Assistance Program ("TCAP"). In combination these programs are estimated to provide over $5 billion in support for affordable rental housing. The Recovery Act also provided $2 billion in support for the Neighborhood Stabilization Program (NSP) in addition to $4 billion provided for the program in the Housing and Economic Recovery Act.

How was the size of the HFA Hardest-Hit Fund determined?

$1.5 billion of funding under the Emergency Economic Stabilization Act ("EESA") has been allocated for the HFA Hardest-Hit Fund. This level of funding will allow the hardest hit states to develop scalable innovative local approaches to foreclosure prevention programs and is an amount that housing finance agencies will be able to absorb and use effectively.

What methodology was used to determine allocations?

The HFA Hardest-Hit Fund announcement indicated that funds would be allocated according to a formula based on home price declines and unemployment. For this simple formula, each state's allocation was determined by first adding two ratios: (i) the ratio of its unemployment rate to the highest unemployment rate in any state and (ii) the ratio of its price decline to the largest price decline in any state. This sum is used to scale the number of delinquent loans in each state. HFA funds are allocated among the states based on this weighted share of delinquent borrowers.

For this calculation, unemployment data is from the Bureau of Labor Statistics as of December 2009, the most recent month available. The home price decline is calculated from each state's home price peak using the FHFA Purchase Only Seasonally Adjusted Index. This index is a widely-used measure of state-level housing price changes and includes only purchase price data – as opposed to refinancing data which are subject to appraisals – and thus may be less systematically biased. The delinquent loans include loans over 60 days delinquent but not in foreclosure as of the fourth quarter of 2009, using MBA data. Treasury does not include loans in the foreclosure process in order to avoid distortions caused by differences in state foreclosure laws that affect the length of time loans may remain in the foreclosure pipeline. Including just delinquent loans give a measure of struggling borrowers that is more comparable across states.

Set forth below is a summary of the methodology used to determine calculations:

	Housing Price Decline		Unemployment						
	Housing price decline from peak	Ratio relative to largest decline	December 2009 unemployment rate	Ratio relative to highest unemployment rate	Sum of ratios *(State's weight)*	Number of delinquent loans in Q4 2009	Weighted number of delinquent loans	Weighted share of delinquent loans in these states	Allocation ($mm)
Nevada	-49.9%	1.00	13.0%	0.89	1.9	62,622	118,382	6.9%	$102.8
California	-38.9%	0.78	12.4%	0.85	1.6	494,640	805,978	46.6%	$699.6
Florida	-37.4%	0.75	11.8%	0.81	1.6	309,022	481,558	27.9%	$418.0
Arizona	-36.8%	0.74	9.1%	0.62	1.4	105,853	144,073	8.3%	$125.1
Michigan	-24.1%	0.48	14.6%	1.00	1.5	120,030	178,000	10.3%	$154.5
Total									**$1,500.0**

Why are only 5 states receiving funding?

The purpose of the HFA Hardest-Hit Fund is to support new and innovative foreclosure prevention efforts in the areas hardest hit by housing price declines and high unemployment rates. In order to help significant quantities of borrowers and test the effectiveness of these efforts, funding levels need to be high enough to make a significant impact. For this reason, HFAs in the five states most severely impacted will be allocated funding. However, we expect that lessons learned through these innovative programs will help other HFAs serve their communities, and will assist Treasury in analyzing the effectiveness of, and designing, locally-targeted housing programs.

What will the HFAs do with this funding?

The HFA Hardest-Hit Fund is intended to allow the maximum possible flexibility to HFAs in designing locally-focused programs that are tailored to the needs of the specific state or a region within a state. All programs must have foreclosure prevention and housing market stability as their primary objectives. In reviewing program designs, Treasury will determine whether all proposed programs would meet the requirements of EESA. While one goal of the HFA Hardest-Hit Fund is to foster innovation, Treasury has outlined some of the possible types of transactions that would be acceptable under EESA. This is not meant to be an exhaustive list of acceptable transactions and other innovative ideas and transaction types (including innovations related to the Making Home Affordable Program) will be evaluated on a case-by-case basis for compliance with EESA.

a. **Mortgage Modifications** – Programs may provide for mortgage modification of loans held by HFAs or other financial institutions or provide incentives for servicers / investors to modify loans.

b. **Mortgage Modifications with Principal Forbearance** – Programs may provide for paying down all or a portion of an overleveraged loan and taking back a note from the borrower for that amount in order to facilitate additional modifications.

c. **Short Sales / Deeds-In-Lieu of Foreclosure** – Programs may provide for assistance with short sales and deeds-in-lieu of foreclosure in order to prevent avoidable foreclosures.

d. **Principal Reduction Programs for Borrowers with Severe Negative Equity –** Programs may provide incentives for financial institutions to write-down a portion of unpaid principal balance for homeowners with severe negative equity.

e. **Unemployment Programs –** Programs may provide for assistance to unemployed borrowers to help them avoid preventable foreclosures.

f. **Second Lien Reductions –** Programs may provide incentives to reduce or modify second liens.

For programs designed to help individual homeowners, the target population should be limited to residences with unpaid principal balances equal to or less than the current GSE conforming limit of up to $729,750 (higher limits are allowable for two to four unit dwellings). HFAs may further target low and moderate income borrowers as required by the enabling state legislation for the applicable HFA.

Each program must be in full compliance with, all federal, state, and local laws, including, but not limited to, the Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination on a prohibited basis in connection with mortgage transactions. Mortgage modification programs are subject to the fair lending laws, and HFAs should ensure that the programs do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any program.

How many homeowners could this program help?

HFAs may use the funding for a variety of programs designed to prevent avoidable foreclosures, assist unemployed borrowers, help address negative equity, or reduce second liens – all with the goal of helping responsible, but struggling American families stay in their homes. As part of the program plans submitted to Treasury, each HFA will estimate the number of borrowers that will benefit from their proposed use of funding. The final versions of each proposal, along with the estimate of the number of borrowers who may benefit, will be publically available on the Treasury website.

Will the HFAs have to pay this money back?

No. The objective of this fund is to prevent avoidable foreclosures in areas hardest hit by unemployment and home price declines. Foreclosure prevention is an objective explicitly listed in EESA. The HFA Hardest-Hit Fund has been created to encourage state HFAs to explore innovative approaches to address foreclosure prevention. It aims to promote flexibility in program design to maximize the impact in local communities.

When will HFAs begin to utilize funding?

Proposals are due from HFAs by April 16, 2010. Treasury will then review each proposal for compliance with program objectives and EESA requirements. Treasury expects that HFAs may be in the position to begin drawing down funds within four to six weeks following submission of proposals.

How will Treasury ensure that HFAs adhere to robust compliance standards in this program?

As with all other uses of funds made available through EESA, the HFA Hardest-Hit Fund will be subject to oversight by 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. All books, communications and records regarding the use of EESA funds must be available for review by any of these entities upon request.

In addition, each HFA will be required to design its program(s), establish monitoring mechanisms, and implement a system of internal controls which minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency and effectiveness. A system of internal controls should encompass the HFA's processes, their business partnerships and relationships and any constituency being aided through these programs. The HFAs will be required to test, certify, and provide an independent verification of the effectiveness of these controls at least annually including an assessment prior to program launch to ensure their eligible entities have taken appropriate steps to meet program objectives, as well as to provide audited financial statements to Treasury.