

Hardest Hit Fund Discussion Item Modification Enabling Pilot Program

Overview

The Modification Enabling Pilot (“MEP”) program will partner Florida Housing with National Community Capital (“NCC”), a national subsidiary of New Jersey Community Capital, a 501(c)(3) CDFI based in New Jersey and founded in 1983. Using the Hardest Hit Fund and private capital raised by NCC, the MEP will help modify mortgages of qualifying Florida homeowners that have been purchased by NCC.

Background

The Department of Housing and Urban Development (“HUD”) recently conducted a Distressed Asset Stabilization Program (“DASP”) sale of severely delinquent mortgage loans insured by the Federal Housing Administration (“FHA”) through a competitive bidding process. As part of this sale, HUD created a Neighborhood Stabilization Outcome (“NSO”) sub-pool of 249 loans in the Tampa Bay area. As announced on Monday, December 3, 2012, NCC was the winning bidder on this sub-pool of loans. Florida Housing endorsed the NCC bid on this sub-pool with HUD.

Under DASP, FHA-insured loans are sold competitively at a market-determined price generally below the outstanding principal balance. Once the loan is purchased, foreclosure is delayed for a minimum of six additional months, during which time the new servicer can work with the borrower to find an affordable solution to avoid foreclosure. Purchasing the loans at market rate, which is generally well below the outstanding principal balance, gives the investor the incentive to take additional steps to help the borrower avoid foreclosure, including modifications that may include reduced principal balances.

Program Concept

NCC will hire a qualified local housing counseling agency or agencies to work with homeowners to try to achieve a modification of their mortgage to an affordable level. For those homeowners who qualify, NCC will write down the principal balance of their loans to 115% of the current market value of the home.

Next, HHF funds would be extended to the borrowers as a second mortgage and would be used to reduce the borrower’s principal loan balance from 115% of current market value to 95% of the property’s market value (or lower if it is needed to enable the modification as long as the borrowers front end monthly housing payment ratio does not fall below 35%) to a maximum amount of \$50,000. This HHF funded second mortgage would carry a five (5) year term and be entirely forgiven at the end of the mortgage term. Worksheets are attached with examples of how this program will work for eligible homeowners in the applicable sub-pools.

Similar to our current HHF programs, we would require homeowners to meet certain criteria that will include such items as income limits, outstanding principal balance limits, primary residency, etc.

Additional Sub-pools

HUD is planning additional DASP NSO sales in Florida in 2013. Late in the first quarter of the year, HUD has announced sales in both Ft. Lauderdale/Miami and Greater Orlando. As part of this pilot program, Florida Housing intends to work with NCC on these sub-pools as well.

How this program differs from the Mortgage Resolution Fund ("MRF")

Under MRF, HHF funds are used to purchase a pool of mortgage loans without knowing which loans will be able to be modified and which loans will have to go through the foreclosure process. Under MEP, loans in a pool are purchased using private capital. Hardest Hit Funds are only used for loans that qualify for modification.

From Pilot to Permanent

If MEP is successful in modifying these DASP NSO loans with NCC, then this concept can be expanded to work with other not-for-profits and other pools of loans. If the additional HUD sales occur as planned, it is hoped that staff can report on the success of the pilot to the Board by the fourth quarter of 2013.

Amount of HHF funds for the MEP Pilot

It is anticipated that the MEP pilot program will expend approximately \$50 million and assist approximately 2,000 homeowners.

Next Steps

If the Board directs staff to proceed with the development of this proposal, then we will develop draft term sheets that will contain all of the eligibility criteria and bring them back to the Board for its further consideration and vote at the January meeting.

FHFC MEP Program Example

Key Loan Profile Numbers

Current Unpaid Principal Balance (Avg UPB from FHA Tampa Sub Pool)	\$123,745
FHFC MEP Assistance Calculation Starting Point (115% of Market Value)	\$70,813
Current Market Value of Home (Avg MV from FHA Tampa Sub Pool)	\$65,585
Target Modified Mortgage Loan Amount for Borrower (95% of Market Value)	\$62,306

MEP Program Loan Example

Target Modified Mortgage Loan Amount for Borrower (95% of Market Value) - Mortgage Held by Private Capital Market Investors	\$62,306
Amount of Principal Reduction (Current UPB minus Target Modified Mortgage Loan Amount)	\$61,439
% Principal Reduction	50%

Funding of Principal Reduction and Leverage Ratio

Contract Principal Amount Due by Borrowers that is Forgiven by Private Capital Investors (Current UPB minus 115% of Market Value)	\$48,322
FHFC MEP HHF Funded Second Mortgage (115% of Market Value minus Target Modified Mortgage Loan Amount)	\$13,117
Private Capital Leverage Ratio	3.68

Impact on Monthly Mortgage Payments

Current P&I Payment	\$794
Revised P&I Payment for Modified Loan	\$384
Monthly PITI Reduction	\$411
% Monthly PITI Reduction	52%

Impact on Housing Affordability

Annual Household Income to Afford Current Mortgage Loan Amount (Total Housing Payments = 35% of Adjusted Gross Annual Income)	\$32,540
Annual Household Income required to afford Modified Loan Amount (Total Housing Payments = 35% of Adjusted Gross Annual Income)	\$18,456
Gross Reduction in Qualifying Income to Support Housing Payments	\$14,084
% Reduction in Qualifying Income/Increase in Housing Affordability	43%

Impact on Borrower's Financial Stability

Potential Annual Income available for Non-Mortgage Debt Reduction OR Savings (Monthly PITI Reduction times 12)	\$4,929
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