Office of the Comptroller of the Currency

Community Developments *Investments*

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Hardest Hit Fund

State Programs to Improve Loan Modification Sustainability and Stabilize Communities

www.occ.gov/hardesthitfund


HARDEST HIT FUND

A Look Inside...

Barry Wides, Deputy Comptroller, Community Affairs, OCC

Source: North Carolina Housing Finance Authority

Paul O. was laid off in February 2010 after 17 years as a shipping and warehouse supervisor for an electronics manufacturer in Winston-Salem, N.C. While disappointed, Paul says he had peace of mind on the day he was laid off because of the information he received about the North Carolina Hardest Hit Fund Program from the Governor's Workforce Rapid Response Team.

As much of the country experiences a slow but steady recovery from the housing and mortgage industry crisis, pockets of the United States continue to see stubbornly high rates of mortgage default and home foreclosure. The federal government, the states most affected by the crisis, and the private sector have tried to address the problem in various ways. This newsletter highlights one of the major federal initiatives, the Hardest Hit Fund (HHF), with articles that feature some of the collaborative programs that have allowed states to implement solutions tailored to each area's situation.

There is no single solution for increasing sustainable loan modifications and reducing foreclosures. The Home Affordable Modification Program and the Home Affordable Refinance Program were created to address the crisis, and the U.S. Department of the Treasury has continually refined the programs in an effort to increase the number of sustainable loan modifications. Newly developed protocols have helped eliminate roadblocks to loan modifications, such as second liens, and new procedures have improved the handling of short sales and the execution of deeds in lieu of foreclosure to address cases where foreclosure appeared inevitable. New incentives are available to help borrowers who transition to more affordable housing.[1]

The HHF, part of the Troubled Asset Relief Program, provides funding under an allocation formula to the states that were most severely affected by unemployment and foreclosures during the housing crisis. Initially, the HHF, which the Treasury Department administers, applied to five states. A second round of funding expanded the program to an additional 13 states and the District of Columbia. Some of these jurisdictions have fully used their funding, and those with remaining funds have until December 2017 to distribute their funds to homeowners in need. As of March 31, 2015, states reported committing $5 billion of the total $7.6 billion allocated to them. The states that still have HHF funds available to directly assist homeowners are Alabama, Arizona, California, Florida, Georgia, Indiana, Kentucky, Michigan, Mississippi, Nevada, North Carolina, and South Carolina.

The HHF's design gives states that receive funding the flexibility to develop or expand existing foreclosure avoidance programs, allowing them to address the challenges unique to their local housing markets. These states implemented their HHF programs through their state housing finance agencies (HFA). The HFAs have developed innovative approaches to help homeowners stay in their homes or make smooth transitions to alternative housing arrangements.

The articles in this edition of *Community Developments Investments* detail the HFAs' efforts. The HFAs use approaches ranging from principal reduction and second lien extinguishment, which support more sustainable loan modifications, to more straightforward approaches that provide temporary mortgage assistance for unemployed and underemployed borrowers and assistance to facilitate short sales.

An article by Erin Quinn, Program Director for the HHF at the Treasury Department, provides an overview of the HHF program, along with helpful reference materials related to the program. Craig Nickerson, with the National Community Stabilization Trust, and Danielle Samalin, Vice President of Homeownership Initiatives, Housing Partnership Network, and President, Framework®, describe efforts to address low-value abandoned properties in a way that complements the work being done by the state HFAs. As has been evidenced throughout the mortgage crisis, it takes the combined resources and ingenuity of many partners to stabilize communities.

This newsletter is part of the OCC's efforts to raise awareness of innovative approaches, share emerging best practices, and encourage banks that serve states with HHF programs to participate in the programs to identify solutions that may help borrowers remain in their homes. Finally, we include links to Treasury Department and OCC resources, which we hope you find useful.

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[1]The Home Affordable Foreclosure Alternatives (HAFA) program provides qualified borrowers with up to $10,000 in relocation assistance. HAFA provides incentives to encourage borrowers to choose alternatives that avoid foreclosure, such as a short sale or a deed in lieu of foreclosure. In a short sale, the mortgage servicer allows the owner to sell the house for an amount less than the remaining mortgage balance. In a deed in lieu of foreclosure, the borrower signs the title back to the mortgage company. Both alternatives avoid the time and expense of a foreclosure. Unlike conventional short sales, a HAFA short sale completely releases the borrower from any obligation under the mortgage debt after the property is sold—the servicer must waive any right to a deficiency judgment. HAFA also has a less negative effect on a borrower's credit score than a foreclosure or conventional short sale.

Hardest Hit Fund Provides Locally Tailored Solutions for Struggling Homeowners

Erin Quinn, Program Director, Hardest Hit Fund, U.S. Department of the Treasury

The Hardest Hit Fund (HHF) was first announced in February 2010 under the Troubled Asset Relief Program (TARP) as a $1.5 billion foreclosure prevention program that provided funding to state housing finance agencies (HFA) in the five states most affected by severe home price declines (Arizona, California, Florida, Michigan, and Nevada). Over the next seven months, as the housing crisis continued to develop, the program grew to a total of $7.6 billion, adding 14 additional jurisdictions with high unemployment and foreclosure rates (Alabama, the District of Columbia, Georgia, Illinois, Indiana, Kentucky, Mississippi, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee).

Source: Shutterstock

The Treasury Department works with state housing finance agencies to administer the Hardest Hit Fund, which was created as part of the Troubled Asset Relief Program in February 2010.

The HHF is unique among federally funded foreclosure prevention programs in that it allows each participating HFA to design and implement programs based on the distinct challenges of its local housing markets.[1] As critical resources for low- and moderate-income families in their states, HFAs are well-positioned to understand the needs of homeowners and their surrounding communities. HFAs also can leverage existing partnerships in their states to reach homeowners. For example, several states, including Illinois, North Carolina, Ohio, and Rhode Island created or leveraged statewide foreclosure prevention networks with a wide array of partners that build on the states' HHF programs. Through the HHF, participating HFAs can develop locally tailored solutions to housing recovery challenges, as long as programs are designed to prevent avoidable foreclosures in accordance with the Emergency Economic Stabilization Act of 2008 (TARP's statutory authority).

Today, the 19 participating HFAs are implementing innovative ideas to help homeowners at risk of foreclosure, with more than 70 programs in place. Through the HHF, HFAs are working to address some of the most difficult challenges facing struggling homeowners in the areas hardest hit by the economic downturn. HFAs have until the end of 2017 to commit funds.

Every participating HFA offers at least one program designed to help unemployed or significantly underemployed homeowners pay their mortgages while they look for work, or to help these homeowners make missed payments and settle other arrearages accumulated during a temporary employment-related hardship. Other types of programs include principal reduction (such as second lien extinguishment or principal reduction with a mortgage modification, reamortization, or refinancing), transition assistance (in conjunction with short sales or deeds in lieu of foreclosure), and neighborhood stabilization assistance (including blight removal and greening efforts in communities where home prices continue to decline and homeowners remain at risk of foreclosure). As HFAs learn from implementation and adapt to changing housing and employment markets, they make changes to their programs with the Treasury Department's consent. The Treasury Department works closely with every participating HFA to help identify potential obstacles and solutions to increase program effectiveness. Participating HFAs also collaborate closely with each other, sharing successful strategies as they go.

Another unique aspect of the HHF is that HFAs can assist homeowners directly, so homeowners do not need to apply to their mortgage servicer for help. As part of their participation in the HHF, HFAs are primarily responsible for soliciting and screening homeowners, as well as managing the relationship with a mortgage servicer on a homeowner's behalf. To accomplish this, HFAs created extensive infrastructures to operate these programs, including hiring and training staff and housing counselors, developing portals homeowners use to apply for assistance and provide supporting documentation, and establishing ways to communicate with mortgage servicers and other critical partners. By July 2011, all 19 participating HFAs were offering their programs widely. HFAs and servicer partners continue to streamline and improve operational processes and outreach initiatives to reach additional struggling homeowners seeking assistance.

Every month, the number of homeowners benefiting from HHF assistance grows. As of March 2015, almost 230,000 homeowners had received assistance, and $4.7 billion had been committed on their behalf; an additional $300 million has been committed under blight elimination programs. The vast majority of the assistance provided to families has been through mortgage payment and reinstatement assistance programs, under which HFAs make monthly mortgage payments to the servicer on a homeowner's behalf. Each HFA determines the amount and duration of assistance provided.

Other, more operationally complex types of programs have been implemented to address severe negative equity and permanent reductions in income. One of the areas in which HFAs have shown great innovation is principal reduction with a mortgage modification, reamortization (recast), or refinancing. Initially, several HFAs had principal reduction programs that matched contributions by servicers to reduce the homeowner's outstanding principal balance. Because the desired volumes were not being achieved, most HFAs began offering "unmatched" principal reduction programs and exploring other strategies to permanently reduce a homeowner's monthly mortgage payment.

California's HFA created a model in which the unmatched principal reduction is used to achieve targeted payment reduction by recasting the loan with a lower principal balance.[2] This is a much simpler process for servicers than modifying the loan. Several HFAs have since incorporated recasting into new or existing modification programs. Florida's HFA developed its HHF principal reduction program to reduce the unpaid principal balance for severely underwater homeowners who are current on their mortgage payments. Both HFAs' programs can assist borrowers whose loans are owned by Fannie Mae or Freddie Mac, who might otherwise be prevented from participating in principal reduction programs, and they are often better-positioned to apply for a HARP or other type of refinancing after receiving assistance through one of these programs.

The HHF is not only developing new ideas for loss mitigation, but is also tracking progress to see which solutions are the most sustainable for borrowers, while developing new models for program operations. HFAs are continuously seeking solutions to a number of questions: What is the best way to reach a troubled homeowner? What outreach methods are the most cost effective? How can an organization leverage housing counselors in a way that leads to higher success rates? How can HFAs most effectively work with mortgage servicers to get assistance to homeowners as quickly as possible? The answers vary from state to state. HFAs learned a great deal as they rolled out their programs and are refining their approaches as they go. Through the HHF, HFAs are becoming experts at loss mitigation strategies, and have created an alternative delivery system for struggling homeowners far more tailored than the standardized systems used by national servicers.

As HFAs continue to successfully administer HHF programs, one-third have ceased accepting new applications in anticipation of full commitment of program funds. As of March 31, 2015, seven HFAs (those in the District of Columbia, Illinois, New Jersey, Ohio, Oregon, Rhode Island, and Tennessee) had closed their application portals. These HFAs will review homeowner applications in their respective pipelines until they have fully committed program funds to qualified homeowners.

The housing market is beginning to show signs of recovery, but conditions in many of these states are still fragile and the need for these programs continues. The HHF was one of the Administration's responses to an unprecedented housing crisis whose impact varied substantially by local housing market. The HHF has helped create capacity, communication channels, and relationships at the local level among HFAs, housing counselors, servicers, and others that will enable them to be invaluable resources for foreclosure prevention efforts going forward. The Treasury Department continues its work with these HFAs to provide assistance to homeowners while local housing and employment markets continue to recover.

For more information, including links to local HHF programs, please visit the Treasury Department's HHF Web site.

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[1]The U.S. Department of the Treasury provides detailed information about the various state HHF programs.

[2]In a recasting, the principal balance of the loan is reduced and the monthly payment is reamortized based on the resulting principal balance, but the loan's term and interest rate remain unchanged.

Protect My Kentucky Home: Unemployment Bridge Program

Michael Carrier, Community Development Expert, OCC

The 19 jurisdictions around the country that ultimately received Hardest Hit Fund (HHF) assistance were selected based on two factors: unemployment rates at or above the national average and steep home price declines. Although the states that received HHF assistance have flexibility to offer locally tailored programs to help distressed homeowners, all of the states participating in the HHF program provide some level of assistance for unemployed mortgage borrowers. Kentucky Housing Corporation (KHC) chose to focus its state's HHF relief on temporary mortgage assistance for unemployed homeowners and reinstatement assistance to help bring eligible borrowers current on their mortgages.

Kentucky Housing Corporation focuses its Hardest Hit Fund relief efforts on unemployed and underemployed homeowners, providing them with temporary mortgage assistance and reinstatement assistance to help bring them current on their mortgages.

The unemployment assistance program KHC offers is typical of the programs developed by the states. The KHC's Unemployment Bridge Program (UBP) offers a forgivable loan to eligible applicants to assist them in making their mortgage payments. As long as the UBP eligibility requirements are met, a borrower can receive assistance for up to 18 months, but the total amount of assistance is capped at $30,000. If a borrower qualifies, the UBP provides assistance to cover the borrower's full monthly mortgage payment, including taxes and insurance. Additionally, borrowers can receive up to the maximum assistance amount, $30,000, in UBP funds upfront to pay any outstanding amounts, such as a delinquent balance, late fees, penalty interest, taxes, and insurance. To ensure that payments are made, the assistance funds are wired directly from KHC to the servicer each month. Payments continue for two months after the borrower becomes reemployed or otherwise has a substantial increase in income.

UBP assistance is structured as a zero percent interest, nonamortizing, forgivable, nonrecourse loan, secured by a junior lien on the property, which is forgiven 20 percent per year for five years. The unforgiven portion of the loan must be repaid if the borrower sells the property before the five-year period expires, provided the borrower has sufficient equity in the property to repay all or part of the loan. For example, if KHC provides $25,000 of assistance, and one year later the borrower sells the property for $100,000 and pays off an outstanding first lien balance of $80,000, the borrower needs to repay $20,000 to the UBP. In the same example, if the borrower's sales price is $80,000, the borrower does not have to repay any of the assistance provided.

Borrower Eligibility Criteria

Borrowers applying for UBP assistance must be either unemployed or underemployed, and must have experienced a job loss or reduction in income due to changing economic conditions or a qualifying disability within a three-year period prior to the date of application. Borrowers must sign a hardship certification acknowledging that the job loss or reduction in income is due to no fault of their own. Assistance is not available in situations where the borrower's financial need is related to divorce or death.

Assistance is available for unemployed borrowers whose mortgage payment exceeds 31 percent of the household's gross monthly income and for underemployed borrowers who can demonstrate that their current income is at least 15 percent less than their pre-event income. Unemployed borrowers receiving unemployment benefits include those benefits in the household income calculation.

Underemployed borrowers include those who have experienced a qualifying job loss but found another job that pays significantly less. Other underemployed borrowers may have had their hours or salary reduced.

A borrower's cash reserves must have dwindled to less than six months of the borrower's monthly outlay for principal, interest, taxes, and insurance. Cash reserves are defined as liquid assets but do not include retirement funds, such as 401(k) or individual retirement accounts. The property must be the borrower's principal place of residence, and the borrower cannot own other residential or rental property. The outstanding balance of the loan or loans on the property must total $275,000 or less, and no more than two existing liens are permitted on the property.

Although KHC handles the underwriting of each application, both KHC and the existing loan servicer must approve the extension of the UBP loan. More often than not, the servicer agrees to the UBP loan; sometimes, however, the borrower is so seriously delinquent that the UBP's limit of $30,000 for reinstatement assistance is insufficient to bring the borrower current. In other instances, the borrower already may be pursuing a different loss mitigation option offered by the servicer.

Outreach to Struggling Borrowers

KHC has developed multiple strategies for publicizing its UBP program. A telephone hot line and Web site provide general information about the program and application process. The Web site is linked to a variety of state government Web sites, so that individuals seeking assistance elsewhere for housing, financial, and employment services can easily obtain information about the UBP. "We also deploy a 'rapid response team' whenever we learn that a plant closing or other major layoff is about to happen," said KHC's UBP Coordinator, Brenda Walker. The rapid response team goes on site when an event that triggers layoffs occurs to provide information and serve as a resource to borrowers who may soon need assistance.

KHC has contacted servicers directly with information about the program. KHC's outreach includes an educational webinar for all servicers to inform them about the UBP program. "Servicers are our biggest advocate," Ms. Walker explained. "They provide borrowers with the link to the UBP Web site and the hot line phone number." Some servicers also insert information about the UBP into borrowers' monthly statements.

Housing counselors are vital to the success of the UBP. Counselors handle the intake and screening of applicants. Borrowers who call the UBP hot line or access the Web site are automatically referred to a housing counseling agency. A counselor is generally the borrower's initial point of contact. Housing counseling agencies often identify clients who are eligible for UBP assistance, and provide the clients assistance in completing an application before it is submitted to KHC for final underwriting, loan closing, disbursements, and loan servicing. "Sometimes borrowers come to us because they don't know what their options are—or because they think they've run out of options," said Patty Pickett, a housing counselor with Legal Aid of the Bluegrass. Oftentimes, the borrower receiving a foreclosure notice prompts a call to a housing counselor. Even at this late stage, counselors can sometimes convince the servicer to suspend the foreclosure process and obtain a better result for both the borrower and lender by assisting the borrower in obtaining UBP funds.

Counselors also help borrowers understand their obligations and the program's requirements. Housing counselors are uniquely suited to this function because they can direct a borrower to other loss mitigation options if the borrower does not qualify for the UBP. "The housing counselor network offers a huge value to the HHF program and is a key link in the whole process and a reason for its success," Ms. Walker said. After assistance is extended, housing counselors often maintain contact with borrowers and help keep borrowers on track by providing ongoing budget counseling.

Servicers interested in learning more about participating in the program can visit the KHC Web site or contact Keli Reynolds at (800) 633-8896 or kreynolds@kyhousing.org.

Articles by non-OCC authors represent the authors' own views and not necessarily the views of the OCC.

Keep Your Home California: Principal Reduction Program

Michael Carrier, Community Development Expert, OCC

Keep Your Home California's Principal Reduction Program lowers homeowners' monthly payments and helps them avoid foreclosure.

The Mortgage Assistance Corporation (MAC), which was created by the California Housing Finance Agency (CalHFA) to administer the state's Hardest Hit Fund (HHF) program, has developed multiple approaches for using its HHF allocation. These approaches include providing temporary monthly assistance payments to unemployed or underemployed households, mortgage reinstatement, and mortgage principal reduction, and assisting homeowners with approved short sales in transitioning to new housing. The highest level of homeowner assistance in California's HHF program suite, Keep Your Home California (KYHC), helps homeowners whose home values have declined below the outstanding amount of their mortgages—so-called negative equity or "underwater" loans.

Among the state programs that allow HHF funding to be used for principal reduction, California's Principal Reduction Program (PRP) has been the most active by far. The CalHFA MAC's goal in administering the PRP is to assist low- and moderate-income homeowners who have experienced an eligible hardship or are facing imminent default.

A recent report estimates that approximately 9 percent of California homeowners are underwater.[1] Home values in the Inland Empire and Sacramento metropolitan areas were particularly hard hit.[2]

The CalHFA MAC believes that PRP assistance is effective for two reasons. Obviously, principal reduction is helpful in reducing the homeowner's monthly payment to a more sustainable level. Another positive impact of aligning the level of outstanding debt closer to market value is that this acts as a powerful incentive for homeowners to remain current on their mortgages going forward and to avoid foreclosure.

Participating lenders work closely with the CalHFA MAC to provide HHF funds to help pay down a homeowner's principal mortgage balance, which allows the lender to reduce the amount of the loan and usually results in a more affordable monthly payment. Lenders that wish to participate must register for the KYHC program. During the registration process, CalHFA MAC provides a comprehensive overview of its HHF programs outlining what is expected, and lenders must sign a memorandum of understanding (MOU) agreeing to follow the program's policies and procedures. For example, participating lenders are required to establish specific points of contact to respond to KYHC transactions in a timely manner. After CalHFA MAC receives a complete and executed MOU from the lender, the lender must complete a two-week training program before participating. Participating lenders that have identified homeowners who could potentially benefit from PRP assistance can direct these homeowners to call the KYHC hot line at (888) 954-5337. The time frame for CalHFA MAC to reach an underwriting decision depends on the complexity of the homeowner's situation. Most approved PRP cases are funded within 45 days.

The PRP provides HHF assistance to reduce the principal balance of underwater mortgages in several ways. For example, assistance is provided in conjunction with a loan modification that may include an interest rate reduction or term extension. Alternatively, the assistance is applied to reduce the existing principal balance and the monthly payment is recalculated, or "recast," to reflect the newly reduced balance (without changes to interest rate or term). The PRP may also be a stand-alone curtailment to reduce the amount of the first mortgage loan if the property has negative equity greater than 120 percent (other conditions may apply).

PRP assistance must reduce the monthly first mortgage payment-to-income ratio to no more than 38 percent of the homeowner's gross household income, excluding temporary income (e.g., unemployment or short-term disability benefits). To achieve this target, servicers may need to apply the PRP assistance to reduce principal in combination with other loan modification changes, such as rate reduction, adjustment to term, or additional forbearance. PRP funds may also be used to reduce or eliminate a non-interest-bearing forbearance amount that resulted from a prior loss mitigation agreement. CalHFA MAC requires participating lenders to waive all accrued and unpaid late charges, fees for insufficient funds, and any recast or modification fees associated with HHF benefits.

A household can receive up to $100,000 in PRP assistance (minus any HHF monies previously received under CalHFA MAC's other HHF programs). In most cases, the PRP assistance is available to households on a one-time-only basis; the KYHC program, however, has the flexibility to provide additional PRP assistance (not to exceed the maximum program assistance amount per household) to previous PRP recipients if the homeowner suffers a subsequent valid financial hardship.

Eligibility Criteria and Program Requirements

The CalHFA MAC PRP assistance is targeted to low- and moderate-income households that have experienced a hardship, such as a job loss, reduction in pay, extraordinary medical bills, death, or divorce. To qualify, the homeowner must complete and sign an affidavit documenting the reason for his or her hardship. In addition to the hardships mentioned above, CalHFA MAC works with homeowners to review two years' worth of financial statements to look for any event that triggered the homeowner's difficulty in making ends meet. Homeowners who have recently encountered any type of financial hardship due to their military service are also eligible. The goal, however, is to ensure a successful outcome with a sustainable mortgage—homeowners must have adequate income to sustain mortgage payments after the assistance is granted.

The mortgage must either be delinquent or meet the CalHFA MAC definition of imminent default as substantiated by a homeowner's hardship documentation. "A pre-assistance loan-to-value ratio of 120 percent or greater is considered a hardship indicative of imminent default," said Diane Richardson, CalHFA MAC's President, adding, "This allows us to focus the program's assistance on those homeowners whose home values are the most severely underwater."

For assistance to be provided, the current unpaid principal balance of the first mortgage (plus any existing non-interest-bearing forbearance balance) must be $729,750 or less. The PRP is available for owner-occupied single-family one- to four-unit properties located in California. The property securing the mortgage loan must not be abandoned, vacant, or condemned. The PRP assistance must reduce the outstanding balance to bring the post-assistance loan-to-value ratio to no less than 100 percent and no greater than 140 percent.

A homeowner in an active bankruptcy is ineligible for assistance under the PRP. Homeowners who have previously filed for bankruptcy are, however, eligible for consideration if they can provide a court order proving dismissal or discharge.

Structure of Assistance

PRP assistance is provided as a nonrecourse, non-interest-bearing subordinate loan secured by a junior lien recorded in favor of CalHFA MAC against the property. At the conclusion of five years,[3] the subordinate loan is released. Within the first five years, if the homeowner obtains a cash-out refinance or the property is sold (so long as there are sufficient net equity proceeds) the subordinate loan must be paid in full. In addition, CalHFA MAC subordinates its loan to ensure homeowners are able to refinance their property. If the lender provides matching assistance in an amount equal to or greater than 100 percent of the PRP assistance provided, then the PRP assistance need not be structured as a loan to the homeowner, and no lien is recorded.

From its inception in 2011 through the first quarter of 2015, the PRP helped 5,519 homeowners and committed $328.4 million in funds. On average, PRP recipients have experienced a 22 percent reduction in their monthly first mortgage payment and nearly a $70,000 reduction in their first mortgage principal balance.

"There are still many pockets in California where home prices have not experienced price appreciation from their significant declines during the recent recession," Ms. Richardson said. "This is particularly true in low- and moderate-income areas, such as Riverside and San Bernardino counties. Economic projections for these areas do not envision conditions that would facilitate homeowners 'growing out of' their underwater status.

"For these locations, the PRP is just as important now as it ever was. One thing we know for sure is that no single solution works for every homeowner situation," Ms. Richardson said. "California's principal reduction program is designed to be as flexible as possible to meet the needs of both homeowners and lenders under numerous scenarios. Smart lenders and investors who are in the know routinely use PRP to help struggling homeowners in their portfolio get the help they need."

For more information, visit CalHFA's Web site or contact Steve Gallagher at (916) 326-8612 or skgallagher@calhfa.ca.gov.

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[1]Core Logic Equity Report, Fourth Quarter 2014, March 2015.

[2]The negative equity shares in metropolitan areas of Riverside-San Bernardino-Ontario (Inland Empire) and Sacramento-Roseville-Arden-Arcade were 14.8 percent and 11.3 percent, respectively, according to the Core Logic Equity Report, Fourth Quarter 2014.

[3]Effective April 6, 2015, the PRP was expanded to provide principal reduction assistance to help homeowners achieve an affordable payment even if their home is not underwater. When the PRP is provided in this way, CalHFA assigns a 30-year lien.

Florida Hardest Hit Fund: Modification-Enabling Pilot Program

Sharon Canavan, Community Relations Expert, OCC

The Florida Housing Finance Corporation developed a type of principal reduction program using Hardest Hit Fund assistance in an innovative "buy and modify" pilot.

Although home prices in most areas of the United States are recovering, home values remain depressed in many of the hardest-hit states. As of the third quarter of 2014, Florida had the second-highest percentage of mortgaged properties with negative equity at 23.8 percent.[1] To address the problem of "underwater" mortgages, the Florida Housing Finance Corporation (Florida Housing) developed a principal reduction program using Hardest Hit Fund (HHF) assistance in an innovative "buy and modify" pilot. Working with a private partner that acquires nonperforming mortgage notes, the Modification Enabling Pilot (MEP) program provides HHF assistance to qualified borrowers by reducing the principal balance of their loans and offering loan modifications that these borrowers can more realistically meet.

The private partner is National Community Capital (NCC), a not-for-profit subsidiary of New Jersey Community Capital, which has been active in providing affordable housing for 27 years. Under its ReStart acquisition program, NCC purchases or otherwise acquires the exclusive right to control the loss mitigation process for deeply discounted, nonperforming mortgage notes. NCC then offers those borrowers financial counseling and, if certain eligibility requirements are met, a loan modification to reduce their mortgage payments. NCC relies on a variety of institutional sources for its capital, including private equity and insurance companies. The ultimate business strategy for many investors who purchase nonperforming loans is to accumulate a portfolio of single-family rental properties. In contrast, NCC believes it can balance its affordable housing mission of keeping borrowers in their homes by offering sustainable loan modifications while still achieving suitable yields and recouping its capital investment.

NCC has acquired several pools of Federal Housing Administration (FHA) mortgage notes secured by properties in Florida. The notes were offered by the U.S. Department of Housing and Urban Development (HUD) under its Distressed Asset Stabilization Program (DASP). Although Florida Housing was actively involved in developing the MEP program, loan purchase is not an eligible use under Florida's HHF guidelines. Therefore, the success of the MEP program hinged on having NCC and its investor partners provide capital to fund the purchase of nonperforming mortgage loans that could be modified with HHF assistance.

To ensure the success of the MEP program, it was also important that the terms of the underlying loans were not a major factor in borrowers' default. David Westcott, Director of Homeownership Programs at Florida Housing, said, "We believed it was prudent to limit the MEP program to DASP pools because we felt these loan modifications would perform better given that the FHA loans were fully documented at origination and did not have exotic characteristics such as 'pick-a-payment' or 'stated income.' "

NCC successfully acquired mortgage notes offered by the FHA as Neighborhood Stabilization Outcome pools of loans concentrated in several areas in Florida. For NCC, the advantage of partnering with Florida Housing was securing access to a source of HHF assistance that could be used to reduce borrowers' principal balance and achieve better loan modification solutions.

"Nonetheless, modifying these loans remains challenging, as these are seriously delinquent borrowers whose home values have declined significantly," said Scott Fergus, NCC's Chief Executive Officer/Chief

Investment Officer. “The sustainability of these loan modifications often hinges on the availability of HHF assistance to lower the outstanding principal balance on these underwater mortgages.”

Borrower and Property Eligibility Requirements

Borrowers cannot directly apply for MEP program assistance. Rather, if their loans are part of one of the HUD DASP sales acquired by NCC, the borrowers are contacted by an NCC-approved resolution specialist to determine initial eligibility. Borrowers may be eligible for the MEP program if

- their documented adjusted household income does not exceed 140 percent of area median income.
- they have demonstrated the ability to maintain a financial obligation for the home, based on an affordable mortgage with a total monthly housing payment equal to or less than 35 percent of their monthly gross income.
- they are experiencing financial hardship as a result of reduced income caused by a change in employment, medical condition or conditions, divorce, or death, and the current unpaid principal balance is equal to or greater than 105 percent of the property’s current market value.

Borrowers who are unable to document any of these financial hardships are eligible for MEP program assistance if their current unpaid principal balance is equal to or greater than 125 percent of the property’s current market value.

Property eligibility requirements also apply under the MEP program. The property must be

- located in Florida.
- the borrower’s principal residence.
- a single-family home, which includes condominiums, townhomes, and manufactured homes, or a two- to four-unit dwelling, with one unit as the borrower’s principal residence.
- occupied (may not be abandoned, vacant, or condemned).

Florida’s HHF program also offers temporary mortgage assistance, as well as reinstatement assistance to cover arrearages; both of these programs are for homeowners who are unemployed or underemployed through no fault of their own. These different types of assistance may be used in conjunction with one another, but the total combined assistance offered to a borrower cannot exceed $50,000.

Modifying the Loan

After determining that the borrower and the property are eligible, Florida Housing, through the MEP program, makes HHF funds available to NCC, which then uses the funds to reduce the loan’s outstanding principal and create a lower monthly payment. The goal under the MEP program is to modify the borrower’s loan amount to the lesser of 100 percent of the current market value of the property or to a point where the total housing payment—including taxes and insurance—on the outstanding mortgage balance is 35 percent or less of the borrower’s current monthly gross income.

As the holder of the mortgage note, NCC has the flexibility to tailor loan modifications to each borrower’s particular case through a combination of principal reduction and modification of the interest rate or term of a borrower’s loan. Florida Housing requires at least a dollar-for-dollar match of private capital for every dollar of MEP program assistance that goes toward principal reduction. NCC forgives a borrower’s payment arrearages and any amounts advanced for tax, condominium, and insurance payments. Generally, NCC has found that loans in the DASP pools are so seriously delinquent that the amounts forgiven are enough to satisfy the requirement to match the MEP program assistance provided.

Another important component of the NCC approach is making financial counseling available to the borrower during and after the loan modification process to improve the borrower's future payment performance. NCC uses local HUD-approved, not-for-profit housing counseling organizations to contact borrowers whose loans are in the DASP pool and provide counseling services to those borrowers, including financial education, debt management planning, and strategies for reducing monthly homeownership costs.

Financial counseling is offered over the course of the two-step loan modification process. As is typical in most loan modification programs, borrowers must successfully complete a trial modification before the loan can be permanently modified. The MEP program is distinct, however, because the length of the trial modification period depends on how quickly borrowers can lower their outstanding consumer credit obligations to a target 55 percent total debt-to-income level. During the trial modification, financial management counselors work with borrowers on strategies to reduce their outstanding nonmortgage debt. A permanent modification is offered once a borrower has successfully completed their trial by making their required payments on time. Most borrowers make the transition to a permanent modification within three months, although NCC reports that the longest MEP program trial modification lasted 12 months.

To keep borrowers on track once the permanent modification is finalized, NCC also provides six months of post-modification counseling services. This follow-up counseling involves outreach calls and, if necessary, face-to-face counseling sessions.

When the permanent loan modification agreement is finalized, the borrower is required to execute a subordinate, nonamortizing, zero-interest loan equal to the amount of principal reduction assistance provided using HHF funds. Each year 20 percent of the HHF loan is forgiven, until the loan is completely extinguished at the conclusion of year five. "The forgivable loan provides an incentive for the borrower to remain in the home and build up equity," Mr. Westcott said, "which helps to stabilize local communities."

In some instances, loans in the DASP pool are ineligible for HHF assistance and the MEP program because either the borrower or the property does not qualify. In those cases, NCC negotiates an alternative solution or completes the foreclosure process and sells the property. For example, a borrower's financial situation may be too dire to work out a loan modification even if principal reduction is offered, so NCC's counselor partners discuss alternative solutions with the borrower, such as a deed in lieu of foreclosure or a short sale. Abandoned properties also require alternative solutions. If a borrower vacates a property before or after the mortgage has been acquired by NCC, HHF assistance becomes unavailable, so NCC would have to complete foreclosure.

After loans are modified, NCC has several ways to recoup the original investment it made to purchase the DASP pool. One approach is to repackage loans for sale after the loans have returned to performing status and borrowers have established a positive payment history. When NCC acquired the loans in the DASP pools most were seriously delinquent, so borrower credit scores were generally below 500. After borrowers improve their payment performance post-modification and their credit scores improve to 600-plus, their loans can generally be sold to another investor or refinanced.

Through its MEP program, Florida Housing has helped borrowers retain their homes. Working with NCC and its investor partners, which provide capital to fund the purchase of nonperforming mortgages that could then be modified with HHF assistance, the MEP program aligns borrowers' outstanding mortgage obligations with today's market values. This modification solution may give these homeowners a new sense of hope and commitment to the wealth-building opportunity that homeownership presents. Keeping these borrowers in their homes also meets the goal of stabilizing communities, which is the fundamental purpose at the heart of both the HHF and DASP initiatives.

For more information on Florida's HHF programs, visit Florida Housing's Web site or contact Nicole Gibson at (850) 488-4197 or Nicole.Gibson@floridahousing.org.

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[1]See "CoreLogic Reports 273,000 Residential Properties Regained Equity in Q3 2014," January 8, 2015.

HUD's Distressed Asset Stabilization Program

In 2010, the U.S. Department of Housing and Urban Development (HUD) announced the Single Family Loan Sales (SFLS) pilot program to sell pools of nonperforming Federal Housing Administration (FHA) mortgage notes rather than letting those loans go through the standard foreclosure and disposition process. In 2012, HUD expanded the FHA SFLS pilot with the introduction of the Distressed Asset Stabilization Program (DASP).[2]

The SFLS program and the DASP are intended to test whether bulk sales of distressed loan assets can enhance the amount recovered on defaulted FHA loans. Also, the DASP provides an opportunity to help borrowers remain in their homes if loans can be modified to more affordable levels. One of the advantages under the DASP is that FHA insurance is removed, giving purchasers of those loans greater flexibility to modify them. Under the DASP, such investors may reduce the principal balance when modifying a borrower's loan to achieve a more viable outcome, as is discussed in the main article above. According to HUD, because these loans would very likely go to foreclosure, the DASP approach "offers a better shot for the struggling homeowner and lower losses to the FHA and taxpayers."[3]

Under the DASP, participating servicers submit a mortgage insurance claim to the FHA for a seriously delinquent nonperforming mortgage note after certifying that all FHA loss mitigation options have been exhausted and foreclosure has been initiated. For the FHA to accept a note, three conditions must be met: (1) the loan must be at least 180 days delinquent, (2) the servicer must have initiated foreclosure, and (3) the property condition must meet FHA standards. Once the FHA accepts a note, the FHA bundles it with other notes and offers them for sale to investors under a competitive bid process.

The FHA offers two types of loan pools to potential investors: Standard Regional/National pools comprising notes on properties located throughout the country, and Neighborhood Stabilization Outcome (NSO) pools, which comprise mortgages for which the underlying properties are more geographically concentrated, e.g., throughout a metropolitan statistical area.[4]

HUD requires the investor with the winning bid on either of these two types of pools to delay the completion of foreclosure for a minimum of 12 months and to explore alternatives to foreclosure. NSO investors must ensure that at least half of the NSO loans achieve a neighborhood stabilizing outcome, such as re-performance, rental to a borrower, gift to a land bank, or a loan payoff.[5]

A recent HUD report evaluated the success of the SFLS program, observing that it is "proving to be a preferred alternative for borrowers than REO [real estate owned]. Unlike REO, where foreclosure is a required first step, the SFLS program provides an opportunity for borrowers to avoid foreclosure."[6]

For more information, contact Sharon Canavan at (202) 649-6386 or Sharon.Canavan@occ.treas.gov.

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[2]The Federal Housing Finance Association issued guidelines that must be followed when Fannie Mae or Freddie Mac sells nonperforming mortgages. These guidelines require, among other elements, that the new owner of the loans offer mortgage modifications to borrowers. When a foreclosure cannot be prevented, the guidelines require the loan owner to market the property to owner-occupants and nonprofit organizations exclusively before offering it to investors. Fannie Mae established a Web site to provide information about its nonperforming mortgage sales. Freddie Mac also has a nonperforming mortgage sale Web site.

[3]"Background: HUD to Unveil Enhanced FHA Note Sales Program," June 8, 2012.

[4]On April 24, 2015, HUD announced changes to the NSO sales portion of the DASP. The changes include giving nonprofit organizations a first look at vacant properties, allowing purchasers to resell notes to nonprofits organizations, and offering a nonprofit-only pool.

[5]Quarterly Report on FHA Single Family Loan Sales, pages 4-5, FHA, data as of May 30, 2014.

[6]Ibid., at page 1.

Articles by non-OCC authors represent the authors' own views and not necessarily the views of the OCC.

North Carolina Foreclosure Prevention Fund: Outreach Initiatives

Michael Carrier, Community Development Expert, OCC

One of the challenges Hardest Hit Fund (HHF) administrators grapple with is how to efficiently identify eligible homeowners who may wish to participate in their state program. Most administrators use mass media advertising to raise awareness among the general public and encourage distressed borrowers to call their state's HHF hot line. Some states also have developed Web sites capable of screening eligible borrowers' applications. The North Carolina Housing Finance Agency (NCHFA), meanwhile, has taken a more targeted approach. While the agency recently invested in significant television and digital advertising—and hosted on-air TV phone banks across the state—its emphasis from the start has been direct outreach to homeowners who are potentially eligible under the NCHFA's HHF program, the North Carolina Foreclosure Prevention Fund (NCFPF). For example, the NCHFA used focus groups of potential clients to help design its Web site and identify the places residents facing foreclosure are most likely to seek help.

The North Carolina Housing Finance Agency uses a targeted approach to efficiently identify eligible homeowners who may wish to participate in the state's Hardest Hit Fund program.

The NCHFA is using its HHF assistance for several purposes, including helping unemployed and underemployed borrowers bridge temporary income gaps by making their mortgage payments while they look for jobs or retrain, reinstating mortgages for homeowners who got behind during unemployment, and replacing costly second mortgages with zero-interest loans.

The NCHFA developed partnerships across the state with local governmental and nongovernmental entities whose activities include contact with homeowners who might qualify for help. Staff outreach specialists were assigned to develop contacts throughout the state and work with the entities to identify opportunities to market the NCFPF program. These staffers identified organizations and agencies whose clients include individuals who lost jobs or whose hours were cut, reducing their income, and who might seek financial assistance and other social services.

"Where possible, we worked top down, starting with the statewide leadership of partner organizations and industry participants," explained Betsy Rozakis, the NCHFA's Chief Financial Officer, who directs the NCFPF. "In addition to working with state workforce development centers and community colleges, we explored diverse local contacts, from county extension offices to community centers and even pawn shops. We also provided information brochures and flyers for these key players to distribute."

Engaging Lenders and Mortgage Servicers in Outreach Efforts

When the HHF was created in 2010, the NCHFA realized that lenders and mortgage servicers could act as primary sources of referrals for homeowners seeking information about the NCFPF program. The NCHFA encourages lenders and servicers to refer delinquent borrowers to its program by providing information on the lenders' Web sites, in their mailings, and through direct telephone contacts. According to the NCHFA, lenders and servicers are the primary sources of referrals to the NCHFA for borrowers seeking information about the NCFPF program. Almost 40 percent of consumer calls to the NCHFA call center have been borrower referrals from mortgage lenders.

NCHFA staff reached out to major lenders and servicers through personal phone calls and e-mails to gauge their interest in participating. To further educate the mortgage industry about the NCFPF program and help smooth industry participation, the NCHFA followed up with conference calls, one-on-one help, and on-site visits. After these initial contacts, NCHFA staff received inquiries from additional servicers interested in participating. The U.S. Department of the Treasury also encouraged lenders to participate during an annual summit of lenders and homeowners and in its monthly conference calls with mortgage servicing executives.

These industry outreach efforts have met with great success. The NCHFA has partnered with more than 100 financial institutions and mortgage servicers throughout the state that have agreed to offer the NCFPF program to borrowers having difficulty meeting their mortgage payments. Ms. Rozakis estimated that the NCHFA distributed more than a half-million flyers, posters, and information cards. “The NCHFA has engaged with more than 60,000 potential clients,” she said, “and our outreach efforts have been integral to our overall success in providing assistance to 19,000 mortgage payment loans through March 2015.”

The NCHFA has hired two additional employees to serve as points of contact with lenders and servicers participating in the NCFPF program. With this added capacity, the NCHFA has maintained a dialogue with major servicers through weekly conference calls, attendance at servicer outreach workshops, and monthly “e-blasts” recognizing best practices that servicers have developed to increase client participation. To keep industry participants engaged and energized, each month the NCHFA acknowledges the servicer that has generated the highest number of borrower contacts to the call center and the NCFPF program Web site.

Several major servicers have initiated their own efforts to increase borrowers’ awareness about the NCFPF program. For example, Bank of America added a message to incoming borrower calls to the collections department, informing callers they may be eligible for NCFPF program assistance. Chase and Truliant Federal Credit Union added links from their Web pages to the North Carolina HHF program Web site and have mailed flyers about the program. Wells Fargo mailed a letter and flyer to its North Carolina borrowers who were delinquent on their mortgages, and the State Employees’ Credit Union educated all its branch managers statewide on the program. The NCHFA has provided marketing materials to servicers who have distributed thousands of these flyers, postcards, and letters that provide vital program information to borrowers.

“Once we explained the benefits of the NCFPF program to banks, they really began to appreciate its potential value,” Ms. Rozakis said. The top selling point for banks is that assistance from the NCFPF program can potentially turn a nonperforming, delinquent loan into a performing asset by increasing the sustainability of a loan modification. Moreover, from a lender’s perspective, agreeing to accept payments through the NCFPF program is better than the potential cost of having to market and resell a foreclosed property. Reduced reputation risk is another benefit.

“Although it may require some additional work,” Ms. Rozakis said, “by participating in the NCFPF program banks are showing they care about their customers and are interested in helping borrowers secure additional assistance.”

Leveraging Borrower Contact Opportunities

In what Ms. Rozakis described as “guerrilla marketing tactics,” the NCHFA broadened its direct outreach efforts by identifying alternative points of contact where financially distressed individuals may go for other types of assistance. The NCHFA’s partnership with the North Carolina Department of Commerce’s Workforce Development and JobLink Career Centers is one of its most productive. NCHFA staffers visit the JobLink centers, train their staff on NCFPF program resources, and provide program information, such as posters and flyers. The NCHFA also participates in the North Carolina governor's rapid response teams, which visit companies that are closing or laying off workers. NCHFA staff hold information sessions at such companies about the NCFPF program for affected workers. This effort is similar to that described in more detail in the article in this newsletter about the Kentucky Housing Corporation's HHF program.

Another approach the NCHFA pursues is contacting unemployed borrowers who are seeking training in new fields and have enrolled in community college programs. The NCHFA has met with state community college leaders and then followed up with visits to financial aid staff at local campuses. NCHFA staff also make presentations at statewide community college education conferences and participate in community college job fairs. Outreach efforts also include contacting college continuing education departments and even high school guidance counselors, who often encounter students whose families are experiencing financial difficulties.

The NCHFA also administers a state-mandated program, the State Home Foreclosure Prevention Project (SHFPP). This program requires servicers to send affected homeowners and the NCHFA a notice 45 days in advance of initiating foreclosure proceedings. The NCHFA observed that many borrowers facing foreclosure fit the eligibility profile for the NCFPF program, so the agency now follows up when it receives SHFPP-triggered notices by sending homeowners information about the NCFPF program and the availability of mortgage payment assistance counseling. The response has been especially strong to a joint letter, worked out by the NCHFA and the Treasury Department's HHF staff, that is periodically included in the mailings.

Local officials also offer a unique marketing channel for reaching borrowers in need. The NCHFA's outreach efforts include the following:

- Court clerks have been enlisted to tell people facing foreclosure about the NCFPF program.
- Sheriffs have been provided informational material about the program to give to homeowners when serving an initial notice of foreclosure. Many sheriffs have been glad for the opportunity, the NCHFA says, noting that posting foreclosure notices is a task sheriffs dislike.
- City or county managers and other local government personnel have been encouraged to post program information and provide links to the NCFPF program Web site. These officials, too, are eager to provide this information because, as the NCHFA stresses, the NCFPF program could bring individual homeowners' taxes current, protect property values, and preserve the local tax base.

"We've even contacted social services offices and visited various churches and food banks to spread the word about our program, and asked libraries statewide to post our information in their reference and computer areas," Ms. Rozakis said. In 2014 alone, NCHFA staff participated in 82 business or community events and meetings, reaching an estimated audience of 11,100.

Veterans Initiative

The NCHFA is making a special effort to expand and promote mortgage payment benefits for military service members who have been honorably discharged and are returning home to civilian life and looking for work or retraining. Explained Ms. Rozakis, "After talking with the Veterans Affairs Office in Winston-Salem about the difficulties returning veterans have in their transition to the civilian workforce, we revised some of our HHF underwriting guidelines to better meet their needs." As a result, the NCHFA offers the NCFPF program's maximum period of assistance (36 months and up to $36,000) to veterans who are enrolled in Veterans Affairs vocational rehabilitation or employment programs or who are in school under the GI Bill. To qualify, veterans must have a Form DD-214 with a separation date after January 1, 2008; a VA-issued, unexpired certificate of eligibility for the GI Bill; and proof of enrollment in an educational program or a vocational retraining program. Like all participants, veterans must show that their mortgage payments (including taxes and insurance) exceed 25 percent of their household income in order to demonstrate the need for assistance.

To make sure veterans know about the resource, an outreach staffer participates on the state's Governor's Working Group on Veterans, Service Members, and Their Families. The staffer also has reached out to North Carolina's largest military bases and to local Veterans Services Offices, veterans employment consultants, and local veterans support groups, making presentations, providing printed materials, and generating local news stories. The North Carolina Division of Veterans Affairs' resource catalogue now carries a full-page ad for the NCFPF program.

Housing Counselor Participation

The NCHFA also has a contractual relationship with 40 U.S. Office of Housing and Urban Development-approved counseling agencies to help homeowners apply for the HHF program. Counseling partners are paid for each case they submit in which the borrower meets all the qualifications and is accepted into the program. This arrangement makes it possible for homeowners to get face-to-face help in their own communities, to understand whether they qualify for the program, and to prepare the application and documentation that are required. The counseling agencies provide follow-up assistance after the borrower receives HHF funds. Counselors also actively provide outreach support in their service areas to spread awareness about the program.

Conclusion

Interest in the NCFPF program remains high: 3,380 homeowners were approved for assistance in 2014. What is most gratifying is the program's overall success rate. Almost 60 percent of the program's 31,000 applicants were approved for assistance. Of those who have received loans, 12,000 have completed the assistance period and returned to paying their mortgages. So far, 98 percent have avoided foreclosure after the assistance from the NCFPF program ended.

For more information, visit the NCHFA's Web site or contact Charlene Smith at (919) 877-5637 or cbsmith@nchfa.com.

Eligibility Criteria

Borrowers meeting the following criteria may be eligible for assistance under the NCFPF program:

- Home is located in North Carolina and is the borrower's primary residence.
- Borrower's total mortgage balance is less than $300,000, including any second mortgage or home equity loan.
- Borrower has experienced a job loss or reduction in income through no fault of his or her own; is facing a temporary financial hardship, such as a divorce, serious illness, or death of a co-signer; or is a returning military veteran transitioning to civilian employment.
- Borrower experienced a job loss or other qualifying event after January 1, 2008.

- Borrower demonstrates ability to resume making the mortgage payment once assistance ends.
- Mortgage payment (including taxes and insurance) exceeds 25 percent of the borrower's household income.

Assistance is provided by the NCHFA making the borrower's mortgage payment to the loan servicer on the borrower's behalf for up to 36 months. The borrower is obligated to repay the NCHFA through a subordinate loan that is zero percent interest, is nonrecourse, and defers payment. The NCHFA's subordinate loan is forgiven in 20 percent increments for each year the borrower stays in the home after the initial five years. At the end of 10 years, the note is considered satisfied, and the NCHFA releases the lien securing the note. The NCHFA's subordinate loan is due and payable if the property is sold, refinanced, or no longer owner-occupied. Loans are repayable only from proceeds remaining for the borrower from a sale or refinance. If the property is sold or refinanced and the borrower's equity has not increased to the degree necessary to repay the note, all or a portion of the note is forgiven.

Articles by non-OCC authors represent the authors' own views and not necessarily the views of the OCC.

Foreclosure Prevention and Community Stabilization Activities Under CRA

Sharon Canavan, Community Relations Expert, OCC

Community Reinvestment Act (CRA) regulations provide financial institutions opportunities to receive consideration for activities that prevent foreclosures and stabilize neighborhoods. In fact, financial institution regulators were so concerned about the impact of foreclosures on communities that the CRA regulations were amended on December 20, 2010, to encourage banks to engage in activities that are eligible under the Neighborhood Stabilization Program (NSP).[1] This article describes the provisions in CRA regulations and guidance for banks to keep in mind as they develop policies and initiatives to address foreclosures, property disposition, and community stabilization.

Source: Detroit Land Bank Authority

This abandoned home in the Pingree Park neighborhood of Detroit was demolished by the Detroit Land Bank Authority using monies from the Hardest Hit Fund.

CRA regulations provide the performance standards for assessing a bank's or savings association's record of helping meet the credit needs of its entire community, including low- or moderate-income individuals and areas, consistent with the safe and sound operation of the institution. Foreclosure prevention programs that provide affordable, sustainable, long-term loan restructurings or modifications to homeowners in low- or moderate-income geographies, consistent with safe and sound banking practices, may help revitalize or stabilize those geographies.[2]

The definition of community development includes activities that provide affordable housing for low- or moderate-income individuals, as well as activities that revitalize or stabilize low- or moderate-income areas or underserved or distressed nonmetropolitan middle-income geographies.[3] An activity is presumed to revitalize or stabilize a low- or moderate-income geography if it has been approved by the governing board of an Enterprise Community or Empowerment Zone or has received a similar official designation as consistent with a government plan for the revitalization or stabilization of the low- or moderate-income geography.[4] Activities outside of these designated areas that provide affordable housing to low- and moderate-income individuals also may be considered under the CRA.

Community development services related to foreclosure prevention include providing credit counseling to assist low- or moderate-income borrowers in avoiding foreclosure on their homes and providing foreclosure prevention programs to low- or moderate-income homeowners who are facing foreclosure on their primary residence with the objective of providing affordable, sustainable, long-term loan modifications and restructurings.[5]

CRA consideration under the investment test may also be provided for a donation or discount on a foreclosed property or a nonperforming mortgage note. For example, a nonperforming note could be donated or sold below market value to a CRA-qualified organization that provides affordable housing for a low- or moderate-income individual. To be considered a CRA-qualified investment, the primary purpose of the note recipient or purchaser must be consistent with the definition of community development.[6] Donation or discount of a loan note to a government authority or a separate entity, such as a state housing finance agency, could also be considered a qualified investment, so long as there is a demonstrable community development purpose. A bank may receive CRA consideration for such investments when they benefit the bank's assessment area or provide benefits to a broader statewide or regional area that includes the bank's assessment area or areas.[7]

CRA consideration for a sale or donation is the difference between fair market value and the discounted disposition price of the property or the nonperforming mortgage. If the property or the nonperforming mortgage is donated outright, the fair market value would be considered an in-kind donation as established by a recent appraisal.

Technical assistance provided to nonprofit or government organizations that is related to the provision of financial services and that has a primary purpose consistent with the definition of community development may receive CRA consideration under the service test.[8] For example, banks can provide technical assistance to qualified community development organizations by lending employees[9] or helping develop guidelines and standards for a program to acquire nonperforming loans or purchase properties through short sales. Technical assistance could also include management training or financial consulting to help these partners develop or manage an effective loan modification program. Other qualifying activities include financial services training for staff, contributing accounting or bookkeeping services, and assisting in fundraising, including soliciting or arranging investments.[10]

Also, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, and designated distressed or underserved nonmetropolitan middle-income geographies qualify as community development and are eligible for CRA consideration. The bank regulatory agencies periodically update the list of designated distressed and underserved nonmetropolitan middle-income geographies.[11]

Expanded Definition of Community Development for NSP-Related Activities

Generally, CRA consideration is available only for qualifying activities that a bank conducts in its assessment area or the broader statewide or regional area that includes the bank's assessment area. A change to the CRA regulations, however, temporarily broadened the geographic consideration for activities related to the NSP administered by the U.S. Department of Housing and Urban Development (HUD).[12]

In 2010, the CRA definition of community development was amended to temporarily broaden eligibility for consideration of NSP-related activities.[13] The pressing need for housing-related assistance to stabilize communities with high foreclosure levels led to the adoption of this revision. Because NSP activities are targeted to areas most severely affected by foreclosures, the rule extends CRA consideration to community development activities that benefit not only low- or moderate-income individuals or geographies, but also middle-income individuals and geographies. The rule also allows consideration of activities in NSP target areas in the bank's assessment area or areas, or in areas outside the bank's assessment area or areas, provided that the bank has adequately addressed the community development needs of its assessment area or areas.

Community development loans, investments, and services that support, enable, or facilitate projects or activities that meet the "eligible uses" criteria under the NSP may receive CRA consideration. Activities need not directly receive NSP funding in order to be eligible for CRA consideration, but the activities must be conducted in HUD-approved, NSP-designated areas and be NSP-eligible activities. Designated target areas are identified in HUD-approved NSP plans. Although NSP grantees deploy their funds in different ways, banks can partner in these stabilization efforts by engaging in CRA-eligible activities that complement grantees' strategies. NSP-eligible activities include the following:

- Financing mechanisms for the purchase and rehabilitation of foreclosed properties, e.g., soft-second loans.
- Purchasing or rehabilitating abandoned or foreclosed homes and properties for sale, rent, or redevelopment.
- Establishing land banks.
- Demolishing blighted structures.
- Redeveloping demolished or vacant properties.

NSP-eligible uses include the purchase of foreclosed and abandoned property, and HUD has clarified that the definition of "foreclosure" does include pre-foreclosure activities, such as a short sale or deed in lieu of foreclosure.[14] Although grantees cannot use NSP funds to purchase nonperforming mortgage notes, if a private investor provides capital to purchase the nonperforming loans and a bank provides other NSP-eligible activities as part of a coordinated neighborhood stabilization strategy, those activities could receive CRA consideration.

As mentioned above, the expanded consideration for NSP-eligible activities under the CRA regulations is temporary. The sunset for this provision is two years after the last date funds appropriated for the NSP are required to be spent by grantees—although HUD issued some exceptions, in general, grantees had to use the NSP funds by March 2014.[15] Financial institution regulators will provide reasonable advance notice to institutions regarding termination of the provision once a date has been identified.

For more information, contact Sharon Canavan at (202) 649-6386 or sharon.canavan@occ.treas.gov.

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[1]75 Fed. Reg. 79278, December 20, 2010.

[2]"Interagency Questions and Answers Regarding Community Reinvestment," 75 Fed. Reg. 11642, March 11, 2010. See __.12(g)(4)(i)—1

[3]See 12 CFR __.12(g).

[4]"Interagency Questions and Answers Regarding Community Reinvestment," 75 Fed. Reg. 11642, March 11, 2010. See __.12(g)(4)(i)—1.

[5]Ibid., __.12(i)—3.

[6]Ibid., __.12(t)—5.

[7]Ibid., __.12(h)—6.

[8]Ibid., __ 12(i)—3.

[9]Ibid., __.12(i)—2 and § __.12(i)—3. It should be noted, however, that the salary for an employee on loan is not considered a grant.

[10]Ibid., __.12(i)—3.

[11]The list is published at the Federal Financial Institutions Examination Council's Web site.

[12]The NSP provided almost $7 billion in funding in three phases. The NSP was authorized in 2008 by Public Law 110-289; $3.92 billion was distributed to state and local grantees to acquire and redevelop foreclosed properties (NSP 1). In February 2009, $2 billion in additional NSP funding was authorized by Public Law 111-5 (NSP 2). Title XIV of the Dodd–Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203, enacted July 21, 2010, provided an additional $1 billion in NSP funding (NSP 3). For more details, visit HUD's Web site.

[13]75 Fed. Reg. 79278, December 20, 2010.

[14]73 Fed. Reg. 58331–58332, October 6, 2008.

[15]NSP 3 grantees were required by HUD to expend at least 50 percent of their funds by March 2013, and grantees must commit all of their NSP funds by March 2014. 75 Fed. Reg. 64324, October 19, 2010.

The ReClaim Project: Resolving Low-Value Distressed Properties

Craig Nickerson, National Community Stabilization Trust, and Danielle Samalin, Vice President of Homeownership Initiatives, Housing Partnership Network, and President, Framework®

The ReClaim Project focuses on contributing to overall neighborhood revitalization efforts in markets still recovering from the housing crisis by moving low-value, pre-foreclosure properties toward a community-sensitive resolution. These properties are sometimes referred to as "walk-aways" and charged off by servicers as unrecoverable.

Source: National Community Stabilization Trust

This foreclosed property in Hamilton, Ohio, was purchased through the National Community Stabilization Trust's REOMatch portal and subsequently rehabilitated and sold to a homeowner.

Created as a pilot program in Cuyahoga County, Ohio, in 2011, The ReClaim Project has two primary objectives: first, to create a transparent, predictable program that enables communities to take control of low-value, distressed assets to meet stabilization goals and, second, to provide servicers a cost-effective path to resolve the properties.

The program is sponsored by the National Community Stabilization Trust[1] (NCST) and the Housing Partnership Network[2] (HPN) as partners in the Community Restoration Corporation (CRC), a 501(c)3 corporation. Additional support and board leadership are provided by the Ford Foundation and the F.B. Heron Foundation.

Abandoned Properties Derail Neighborhood Recovery

In numerous communities today, real estate owned inventories are on a steep decline, and overall foreclosure rates are at five-year lows. But that good news does not apply everywhere. Unfortunately, many low- to moderate-income and multicultural communities are disproportionately affected by lower-value vacant properties that never move to foreclosure sale. These properties, typically with a value below $25,000, stagnate in pre-foreclosure, where no path to resolution seems economically available.

Homeowners with defaulted mortgage loans, significant financial hardships, and homes in serious disrepair often abandon hope and vacate their properties. Adding to the problem, the mortgage servicer often does not take the property through foreclosure. To do so would mean spending additional money without any expectation of repayment. As a result, properties remain unaddressed, creating what are often described as "limbo loans" or "zombie loans." These vacant properties have a viral influence on the community, negatively affecting home values for the homeowners who remain in the neighborhood. Some of these distressed homes are unoccupied for long periods and deteriorate beyond repair, and can pose a serious danger to public safety.

A 2013 RealtyTrac study found that vacant properties inflict heavy costs on American communities: blight, crime, lowered home values, and decreased property tax revenue. And in a 2015 report, RealtyTrac found that 142,462 U.S. properties in the foreclosure process were vacant, representing 25 percent of all properties in the foreclosure process. The states with the most owner-vacated foreclosures were Florida with 35,903 (25 percent of the national total), New Jersey (17,983), New York (16,777), Illinois (9,358), and Ohio (7,360).

For servicers and mortgage investors, completing the foreclosure process for such low-value property loans is often not economically feasible, particularly in judicial foreclosure states. This is where The ReClaim Project team enters to work closely with mortgage servicers, financial institutions, local housing providers, and community, city, and state officials to determine the best possible outcome for these properties, focusing on timely, sustainable solutions that positively affect communities, homeowners, and even mortgage servicers and investors.

Donation of Nonperforming Mortgage Notes Leads to Productive Resolution

The process begins when a servicer donates low-value nonperforming mortgage loans, along with a financial contribution, to The ReClaim Project. The financial contribution is applied to asset-level costs for servicing and loan remediation or property resolution expenses, such as homeowner counseling, property security and maintenance, title and property tax deficiencies, property repairs, and, when necessary, demolition.

These loans are on-boarded with the project's specialized servicer, a firm that has extensive experience with this asset class and handles all servicing functions and initial loss mitigation efforts. The ReClaim Project team and a special servicer join with local government and community housing partners to create the best property-specific execution.

The ReClaim Project uses the NCST's network of community-based providers and the HPN's local members to determine the optimal local working partnerships.

The ReClaim Project team and community partners identify a disposition strategy for a nonperforming loan by considering several factors, including the borrower's financial condition, the property's condition, alignment of a disposition strategy with community goals, and the impact on The ReClaim Project's charitable purpose. After weighing all factors, strategic options are considered, such as modifying loans to lower mortgage payments so the borrowers can once again afford monthly carrying costs. When keeping families in their homes is not feasible, or for vacant properties where no contact can be made with the owners, the best option often is to complete the foreclosure process so that properties can be conveyed to community-based developers for rehabilitation or demolition.

The ReClaim Project and Use of the Hardest Hit Fund

The ReClaim Project benefits from access to the Hardest Hit Fund (HHF) in a number of ways. First, these funds are used to help keep families who are seriously delinquent on their mortgages in their homes. Helping such families, when more common forms of loan modification are no longer available, is beneficial to the family and the neighborhood.

Second, the HHF can be used in select states to cover the property's demolition costs when the asset is conveyed by the CRC to an approved land bank. The U.S. Department of the Treasury has approved using the funds for demolition of low-value distressed properties in select states with high levels of low-value vacant property.

For example, the Michigan State Housing Development Authority found that providing funding to support demolition of vacant, abandoned properties in select markets, in collaboration with land banks, can be part of a comprehensive strategy to strengthen communities and reduce blight.

The ReClaim Project Creates 'Win-Win' Outcomes for Communities and Servicers

Communities need sustainable solutions that provide lasting assistance to families, facilitate vacant property rehabilitation, and permanently remove dangerously blighted properties from neighborhoods.

A Federal Reserve Bank of Cleveland study showed that the community bears large costs when unoccupied homes create health and safety hazards and cause surrounding homes to lose value. The loss of property values hurts municipalities and school districts funded in whole or in part by taxes on the value of real property. Also, when a foreclosure sits vacant, there are additional costs to the creditor or taxing authority due to the accelerated depreciation of unoccupied homes. A previous study completed in Cuyahoga County found that each vacant property lowered the sale prices of surrounding homes by $1,300 to $2,300.

Participating servicers benefit in several ways. Most importantly, conveying a note to The ReClaim Project avoids the cost and economic uncertainties associated with a foreclosure. Also, homeowner retention and community-focused property remediation are prioritized, reducing the reputation risk to financial institutions. The program is designed to enhance the scale, speed, and accuracy of asset resolutions. Lastly, conveying a pool of low-value notes to a single national intermediary is more cost effective than negotiating individual conveyances to hundreds of local organizations with varying levels of note resolution experience.

While The ReClaim Project has just begun, there is great excitement about the opportunities ahead. Through The ReClaim Project, the NCST and the HPN can offer servicers, government-sponsored enterprises, and even the Federal Housing Administration a financially responsible alternative to loan charge-offs and the high cost of foreclosure and subsequent remediation. And importantly, The ReClaim Project involves local grassroots solutions that are sensitive to homeowner needs and community stabilization provider interests.

For more information, contact Sally Powell Schall at (214) 710-3411 or spowellschall@stabilizationtrust.com.

[1]The NCST is a nonprofit organization committed to stabilizing the nation's neighborhoods. Formed through the unprecedented collaboration of six leading national community development nonprofit organizations, the NCST serves as the bridge between large financial institutions and local housing providers, and actively helps develop community-based housing strategies to ensure that low- and moderate-income families have access to affordable, safe homeownership and rental opportunities.

[2]The HPN is an award-winning business collaborative of the nation's leading affordable housing and community development nonprofit organizations. The HPN uses private sector strategies and partnerships to transform lives, helping millions of people gain access to affordable homes and thriving communities.

Using Hardest Hit Fund Assistance for Blight Removal

In 2013, the U.S. Department of the Treasury approved Michigan's request to use part of the state's Hardest Hit Fund (HHF) allocation for blight elimination. Since then, five other states have developed programs to use HHF funds for blight removal and greening efforts: Alabama, Illinois, Indiana, Ohio, and South Carolina. The six state housing finance agencies (HFA) have allocated a combined $382 million to blight elimination programs and awarded $339 million to program partners. As of March 31, 2015, HFAs have disbursed more than $50 million to partners who have demolished and greened 3,885 vacant properties.

In Michigan, $175 million in HHF assistance has been allocated for anti-blight efforts, $100 million of which was earmarked for Detroit. Although this amount is expected to cover the demolition and greening of approximately 7,000 properties, there are more than 200,000 vacant properties in the Detroit Metropolitan Statistical Area alone. Michigan's HFA restricted the use of blight elimination funds to single-family residential properties in the stronger neighborhoods targeted for stabilization efforts, where the demolition will have the greatest impact on neighboring homeowners and their properties.

HFAs already report a reduction in crime and enhanced quality of life for homeowners in hard-hit communities as a result of blight elimination efforts. Over the next few years, HFAs expect distressed sales and foreclosures to drop, which would help stabilize (and possibly increase) property values, further reducing the risk of default and foreclosure for homeowners in these targeted communities.

Hardest Hit Fund Program Contact Information

State	Program	Web site	Primary contact and Telephone	Program status as of May 31, 2015
Alabama	Hardest Hit Alabama	www.hardesthitalabama.com	Cathy James (334) 244-9200	All programs open.
Arizona	Save Our Home AZ	www.azhousing.gov	Reginald Givens (602) 771-1041	All programs open.
California	Keep Your Home California	www.keepyourhomecalifornia.org	Jean Mills (916) 376-296	All programs open.
District of Columbia	Home Saver Program	www.homesaverdc.org	Regina Moore (202) 777-1644	Mortgage payment assistance program closed.
Florida	Florida Hardest-Hit Fund	www.flhardesthithelp.org	Nicole Gibson (850) 488-4197	All programs open.
Georgia	HomeSafe Georgia	www.homesafegeorgia.com	Brenda McGee (404) 679-4940	All programs open.
Illinois	Illinois Hardest Hit Program	www.illinoishardesthit.org	Peter Sellke (312) 338-0518	Mortgage payment assistance program closed. Principal reduction program open only for servicer referrals.
Indiana	877-GET-HOPE	www.877gethope.com	Mark Neyland (317) 234-6976	All programs open.
Kentucky	Protect My Kentucky Home	www.protectmykyhome.org	Keli Reynolds (502) 564-7630	All programs open.

Michigan	A Step Forward Michigan	www.stepforwardmichigan.org	Mary Townley (517) 373-6864	All programs open.
Mississippi	Home Saver	www.mshomesaver.com	Ben Mokry (601) 718-4642	All programs open.
Nevada	Nevada Hardest Hit Fund	www.nevadahardesthitfund.nv.gov	Tony Cammiso (702) 675-6608	All programs open.
New Jersey	New Jersey HomeKeeper Program	www.njhomekeeper.com	Katone Glover (609) 278-7380	Mortgage payment assistance program closed. Principal reduction program opening summer 2015 only for servicer referrals.
North Carolina	NC Foreclosure Prevention Fund	www.ncforeclosurehelp.org	Charlene Smith (919) 877-5637	All programs open.
Ohio	Save the Dream Ohio	http://ohiohome.org/savethedream	Jeremy Myers (614) 728-5718	Programs closed.
Oregon	Oregon Home-ownership Stabilization Initiative	www.oregonhomeownerhelp.org	Betty Merrill (503) 986-6764	HHF-funded mortgage payment assistance program closed.[1]
Rhode Island	Hardest Hit Fund Rhode Island	www.hhfri.org	Jo-Ann Ryan (401) 457-1258	Programs closed.
South Carolina	SC HELP	www.schelp.com	Kim Wilbourne (803) 896-9083	All programs open.
Tennessee	Keep My Tennessee Home	www.keepmytnhome.org	Cynthia Peraza (615) 815-2112	Program closed.

[1] Oregon offers two programs that use monies recovered through lien satisfaction and revolving funds to provide principal reduction assistance to homeowners.

Resource Guide

U.S. Department of the Treasury: Hardest Hit Fund Program
This Web site includes detailed, state-by-state information about initiatives designed to limit foreclosures; these state initiatives are implemented using funds from the Hardest Hit Fund program.

U.S. Department of the Treasury: Office of Financial Stability
The Treasury Department's Office of Financial Stability manages the Troubled Assets Relief Program (TARP). This Web site provides information on federal initiatives and major legislation, including the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, and the Making Home Affordable Program. TARP includes several investment programs that assist struggling homeowners facing foreclosure. This Web site provides information, reports, and data on each of the programs established through TARP, including its design, purpose, and results.

U.S. Department of the Treasury: Making Home Affordable Program
The Making Home Affordable Program (MHA) is a comprehensive plan implemented by the Treasury Department to stabilize the U.S. housing market by helping homeowners get mortgage relief and avoid foreclosure. In March 2009, the Obama administration published detailed program guidelines for the MHA. Mortgage servicers were authorized to begin modifications under the plan immediately. With the assistance of several government agencies, government-sponsored enterprises, and servicers, this effort involved the development and refinement of servicer guidelines, modification documents, and data collection and modeling tools. This Web site provides information about the various MHA programs.

U.S. Department of Housing and Urban Development: Neighborhood Stabilization Program
This Web site contains detailed information about the Department of Housing and Urban Development's Neighborhood Stabilization Program, which provides grants to states and certain local communities to purchase foreclosed or vacant homes and to rehabilitate, resell, or redevelop these properties. Guidelines about the program as well as specific information about the grantee plans are available here.

OCC Community Affairs' Neighborhood Stabilization Resource Directory
This Web site offers links to information about strategies that can help mitigate the negative effects of rising foreclosures on communities across the country.

OCC Foreclosure Prevention Resource Directory
This Web site is a resource directory for mortgage servicers working to reduce the incidence of foreclosures in their servicing portfolios, which also benefits investors, borrowers, and affected communities. The resources are useful for borrowers working to cure delinquent mortgages and the counseling organizations that work with these borrowers, as well as for other entities interested in reducing foreclosures.

OCC *Community Developments Insights* Report, "Foreclosure Prevention: Improving Contact With Borrowers"
This report highlights some of the best practices that loan servicers are using to improve their contact rate with delinquent mortgage borrowers. These best practices include the use of sophisticated scoring models, customer-friendly approaches, partnerships with nonprofit credit counselors, and Web-based information on workout options.

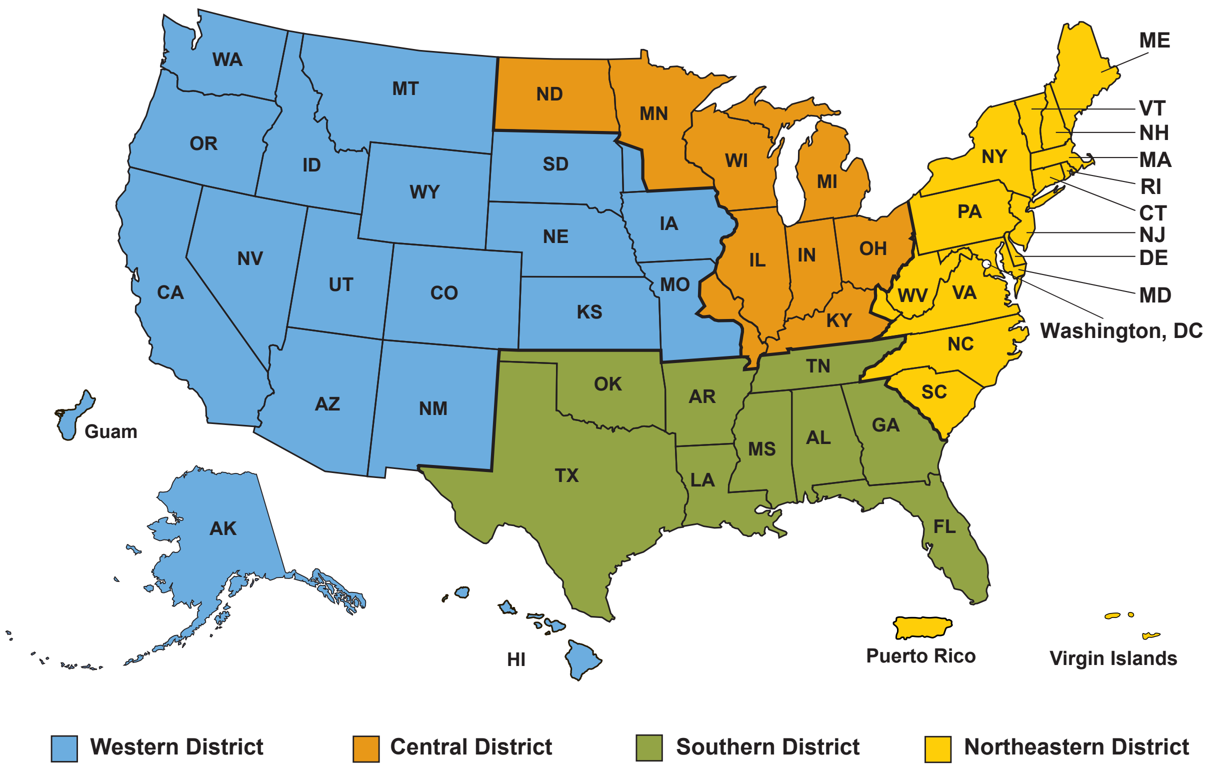
OCC *Community Developments Investments* Newsletter, "Homeownership: Preserving the American Dream"
This newsletter focuses on ways banks can help reduce foreclosure through partnering with nonprofits and successfully implementing early intervention strategies with troubled borrowers.

OCC Community Affairs News E-Mail List Service
Register for this online service and stay up to date with current news and information about OCC Community Affairs, our mission, and the federal banking system.

We provide information about community development investments, small business financing, financial literacy, consumer protection, affordable housing, Native American banking, rural development, and other important consumer issues.

Subscribers receive regular e-mail alerts on new public welfare investments precedents; the latest quarterly investment compilations; and announcements on new interpretations, regulations, and policy changes. In addition, we will inform you about the release of new Community Affairs publications as they become available.

Community Affairs supports the OCC's mission to ensure a vibrant banking system by helping national banks and federal savings associations to be leaders in providing safe and sound community development financing and making financial services accessible to underserved communities and consumers, while treating their customers fairly.



E-mail and telephone information for the OCC's District Community Affairs Officers is available at www.occ.gov/cacontacts.

Community Affairs

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