The Florida Senate

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Committee on Community Affairs

HARDEST HIT FUND

Statement of the Issue

In February 2010, the United States Department of Treasury (Treasury) created the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("Hardest Hit Fund" or "HHF"). Established through the Emergency Economic Stabilization Act of 2008, the HHF provides funding for state housing finance agencies to help address housing problems in states experiencing the most severe home price declines and high unemployment rates. Foreclosure prevention and housing market stability are the primary objectives of the program. Qualified homeowners who are unemployed or underemployed apply with the HHF to receive assistance in meeting their mortgage payment obligations.

The federal government has thus far allocated $7.6 billion to the HHF with funds going to 18 states and the District of Columbia. The state of Florida's share of these funds currently totals slightly over $1 billion. In October 2010, the Florida Housing and Finance Corporation launched a pilot HHF program in Lee County to test the initiative. Results of this pilot program led to changes and enhancements that were integrated into the statewide launch in April 2011. This issue brief reviews the creation of the Hardest Hit Fund, the types of assistance offered in Florida, and available participation data to date.

Discussion

Foreclosures and Florida

An economic case for averting foreclosure can certainly be made. Because foreclosures impose high costs, including legal and administrative expenditures as well as the costs of leaving the property vacant for a possibly extended period, both the borrower and the lender are often better off avoiding the process. Additionally, the costs of foreclosure may extend well beyond those borne directly by the borrower and the lender. Clusters of foreclosures can destabilize communities, reduce property values of nearby homes, and lower municipal tax revenues.

According to a recent U.S. foreclosure market report, 113,641 properties in Florida received a foreclosure filing in the first six months of 2011, more than in any other state except for California.[1] While this represents a 55% decrease in foreclosure activity from the previous six months and a nearly 59% decrease from the first half of 2010, some of the reduction may be attributable to ongoing probes of mortgage-servicing and foreclosure practices.[2] If and when these investigations are resolved, Florida and the nation may experience another spike in foreclosure activity.

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[1] Press Release, RealtyTrac, *Foreclosure Activity Off 29% for First Half of 2011* (July 13, 2011), *available at* http://www.realtytrac.com/content/press-releases/midyear-2011-us-foreclosure-market-report-6681.

[2] Bloomberg News, *Foreclosure Deal Said to be Held Up Over Liability Releases* (July 22, 2011), *available at* http://www.bloomberg.com/news/2011-07-22/bank-foreclosure-practices-deal-said-to-be-held-up-over-liability-releases.html.

The Origins of the Hardest Hit Fund

The HHF was launched in February 2010 to complement a number of existing Making Home Affordable initiatives designed to combat foreclosure problems in the U.S. Among these existing efforts were the Home Affordable Modification Program (HAMP), the Home Affordability Foreclosure Alternatives (HAFA), and the Principle Reduction Alternatives (PRA).[3] While these previous programs are federally administered and mortgage-servicer driven, the HHF allows state Housing Finance Agencies to design locally-focused programs unique to their state or to regions within their state. Florida, California, Nevada, Arizona, and Michigan were suffering through 20+ percent home price declines at the time and became the first HHF recipients. Florida received $418 million of the $1.5 billion in initial funding. In March of 2010, states with high concentrations of areas experiencing 12% unemployment rates in 2009 were also added to the program. Subsequent rounds of funding allocations raised Florida's allotment to just over $1 billion.[4]

Florida Housing Finance Corporation (FHFC) administers the HHF in Florida. A public corporation of the state, FHFC is Florida's housing finance agency. As a financial institution, FHFC directs federal and state resources to provide low interest financing to homebuyers and also finances the development and preservation of affordable homeowner and rental housing.[5] Florida Housing's HHF is subject to all requirements of the Economic Stabilization Act of 2008, including full compliance and oversight by Treasury and the Comptroller General of the United States. FHFC is also bound by the Government-in-the-Sunshine Law, the Public Records Act, the Administrative Procedure Act, and audits by the Chief Financial Officer for the state of Florida and the State Auditor General.

In September of 2010, the U.S. Department of Treasury convened a summit where Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, the five largest mortgage servicers and the ten states receiving HHF funding participated. As a result of this summit, the parties agreed upon term sheets for two types of temporary mortgage payment relief for homeowners: the Unemployment Mortgage Assistance Program (UMAP) and the Mortgage Loan Reinstatement Payment Program (MLRP). Using these term sheets, FHFC began an HHF pilot program for UMAP and MLRP in Lee County in October 2010.

Florida's Programs: Unemployment Mortgage Assistance and Mortgage Loan Reinstatement

The UMAP provides loan funds to homeowners to help pay monthly mortgage and escrow-related expenses (i.e., property taxes, homeowner insurance and mortgage insurance).[6] Funds are available for up to six months with a cap of $12,000, whichever occurs first. Homeowners participating in the UMAP are required to pay 25 percent of their monthly income toward the monthly mortgage payment, with a minimum payment of $70 per month. The target population for the UMAP are homeowners who are unemployed, underemployed or have had a reduction of income through no fault of their own. The program is intended to offer short-term, bridge assistance to homeowners as they go about correcting their economic hardships. The required financial commitment from homeowners insures a shared responsibility between them and the HHF in making monthly mortgage payments. 60% of Florida's HHF funds are allocated for UMAP.[7]

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[3] Making Home Affordable, *Programs*, *available at* http://www.makinghomeaffordable.gov/programs/Pages/default.aspx (last visited July 22, 2011). Different programs address different homeownership challenges. HAMP reduces monthly mortgage payments, HAFA helps with a short sale or a deed-in-lieu of foreclosure, and PRA assists with mortgage principle reduction.

[4] Florida Housing Finance Corporation, *Florida Hardest Hit Fact Sheet*, *available at* https://www.flhardesthithelp.org/ (last visited July 25, 2011). The exact total of Florida's HHF allocation is $1,057,839,136.

[5] Florida Housing Finance Corporation, *Overview of Florida Housing Finance Corporation* (February 2011) (on file with the Senate Committee on Community Affairs).

[6] Florida Housing Finance Corporation, *Florida Hardest Hit Frequently Asked Questions*, *available at* https://www.flhardesthithelp.org (last visited July 25, 2011). Descriptions, parameters and requirements of the programs provided in this section are derived from this website.

[7] Florida Housing Finance Corporation, *HFA Hardest Hit Fund Proposal* (April 2010) (on file with the Senate Committee on Community Affairs). The exact UMAP allocation is $634,938,257. Permitted start-up, operating, and transaction expenses represent 9.97% of Florida's program.

The MLRP provides loan funds to assist homeowners in bringing past-due first mortgages current. Up to $6,000 in relief is available. MLRP funds are designed to help homeowners who have returned to work or recovered from underemployment and can now resume monthly payments based on their new income. This assistance is targeted for homeowners needing help only to bring a mortgage and/or mortgage related expenses current. Because of this, the total housing expenses (principal, interest, taxes, and insurance and association dues) of MLRP recipients must be less than the financially sound 31% ratio of gross income. The intent is to create situations where homeowners have emerged from their economic hardships, are current with their mortgages, and are again making their monthly payments. The MLRP allocation represents 30% of total HHF funds.[8]

While the two programs are distinct in nature, homeowners can and often do qualify for each of them. The maximum amount of funding a single homeowner could receive participating in both the UMAP and the MLRP is $18,000. Combining this allocation maximum with the six month time limit, FHFC anticipates that 53,000 homeowners could be aided over a five year period.

Any funds received come in the form of a 0%-interest, non-recourse, deferred-payment forgivable loan subordinate to current mortgages on the home. The loan is forgiven at a rate of 20% annually over five years starting 18 months after acceptance into the program. A UMAP/MLRP loan must be paid back if the home is sold prior to the end of the five year loan period and there are sufficient proceeds from the sale to pay all superior loans. Any funds returned to FHFC may be reused for the HHF until December 31, 2017. Thereafter they will be returned to Treasury.

There are a number of household, property, and mortgage HHF eligibility requirements in addition to those mentioned above. These requirements include:

- proof of financial hardship;
- total household income must be below 140% of the area median income (AMI) as provided by the U.S. Department of Housing and Urban Development;
- first mortgage is no more than 180 days past due at time of application;
- first mortgage is currently being serviced by a participating lender;
- the existing first mortgage was originated on or before January 1, 2009 and the outstanding principal balance of the first mortgage is $400,000 or less at the time of application; and
- the maximum combined loan-to-value is not more than 200%.

Outright eligibility exclusions also exist. Some of these include:

- the property cannot be abandoned, vacant or condemned;
- the homeowner cannot have more than one property other than their primary residence; and
- the mortgage cannot be seller financed.

According to the FHFC, the eligibility criteria are designed to identify and help homeowners who have the best chance of preventing foreclosure. The combined loan to value of 200% and the 180 days past due provisions highlight this philosophy. If a homeowner owes a servicer more than twice what the home is worth, it is unlikely he or she will remain in the home long term. A short sale may be the best option in this case. Similarly, lenders FHFC spoke with say it is rare that people who get six months or more behind on their payments are able to recover and keep their homes. There are many borrowers who have not made payments for up to two years who are still living in their homes.[9]

All states participating in the HHF provide assistance similar to UMAP and MLRP. Some states have also designed programs that mirror federal plans for mortgage principal reduction (PRA) or short sale assistance (HAFA) but with a state level focus. Florida is focusing on the unique forms of assistance provided through

[8] *Id.* The exact MLRP allocation is $317,469,129.

[9] E-mail from David Westcott, Director of Homeownership Programs, Florida Housing and Finance Corporation, to John Toman, Legislative Analyst , Florida Senate Committee on Community Affairs (July 28, 2011) (on file with the Senate Committee on Community Affairs)

UMAP and MLRP rather than duplicating existing federal programs. The HHF is not designed to prevent every foreclosure and is not a bailout for irresponsible homeowners. Eligibility requirements and program parameters are fashioned to target homeowners with real hardships who are committed to staying in their homes and keeping up with their payments.

How Florida Homeowners Apply for Hardest Hit Fund Assistance

The Florida Hardest Hit Advisor Procedures Manual outlines the application process for HHF funding.[10] A Florida homeowner may apply for financial assistance using a web-based system from a computer with internet access. Once a homeowner applies, he or she is assigned to one of the 88 current Advisor Agencies working with FHFC at the local level. Advisor Agencies are located in 146 different locations throughout 39 counties across the state and include cities and counties, as well as HUD-approved local housing counseling agencies and nonprofit organizations like Catholic Charities and the Urban League. HHF-trained staffs with Advisor Agencies assist homeowners in collecting and submitting application documents. They also make initial program eligibility reviews. If a homeowner is deemed eligible at this point, the application is forwarded to the FHFC for a final review and underwriting, followed by submission to the mortgage servicer for approval. FHFC says these application steps are currently taking from four to five weeks to complete**.**

Once a mortgage servicer receives the approval letter from FHFC it takes them an average of 14 days to determine if they will accept payments on behalf of the homeowner through the HHF. As of July 2011, there were 101 participating servicers in Florida. These servicers range in size from large entities such as Bank of America and JP Morgan Chase to community-based banks and local Habitat for Humanity outlets. During the 45-day determination window, a homeowner is exempt from any scheduled mortgage payments to the servicer, in essence creating some immediate cash flow relief. If the servicer agrees to receive HHF monies, the Advisory Agency schedules and executes the closing and the FHFC then coordinates a payment start date. The FHFC makes all payments directly to the servicer. To insure program fidelity, Advisor Agencies perform monthly, follow-up eligibility reviews of all participants for the length of assistance.

Geographic Program Funding Allocation

While an unintended financial hardship is the qualifier for HHF assistance, the program also recognizes that different areas of the state have experienced different degrees of housing market adversity. To determine geographic targeting for Hardest Hit funding, FHFC carried out an analysis of data, relying on data similar to that used by Treasury to allocate funding.[11] FHFC evaluated three measures across all 67 Florida counties --- housing price decline from peak prices, unemployment rate, and seriously delinquent mortgage loans --- and then combined the ratios for each to create an allocation methodology to guide how funding is geographically targeted. Ninety percent of funding for the HHF is proposed for allocation in the sixteen hardest hit counties of the state.

Applicant and Funding Disbursement Data on the HHF thus Far

With the recent statewide launch, Florida's HHF is in its infancy. As of July 22, 2011, 23,221 HHF applications had been initiated with each of Florida's 67 counties represented in the total. The table below summarizes applicant and eligibility numbers as of this date.

Florida Hardest Hit Fund
Information Summary as of July 22, 2011

Total Applications	**23,221**
Total Completed Applications[1]	14,986

[10] Florida Housing Finance Corporation, *Florida Hardest Hit Advisor Procedures Manual* (April 2011) (on file with the Senate Committee on Community Affairs).
[11] Florida Housing Finance Corporation, *HFA Hardest Hit Fund Proposal* (April 2010) (on file with the Senate Committee on Community Affairs).

Total Incomplete Applications[2]		8,235
Total Number of Applicants Assigned to Advisors[3]		**17,417**
Total Number of Applicants Contacted:	**98.0%**	**17,077**
Number of Eligibility Reviews Completed		**6,964**
Number Deemed Ineligible		4,918
Total Applicants Approved by FHFC for Funding		**2,035**
Total Number of Applicants Approved and Closed		656
Number of Applications Sent to Servicer for Approval		745
Number of Applications Approved and Pending Closing		634
Number of Applications Currently in Process		**7,944**
Number of Cancelled / Withdrawn Applications		**2,509**
Number of Servicers Participating in HHF		**101**
Total Number of Approved Applicants that Have Completed and Exited the Program		**11**

Source: Florida Housing Finance Corporation. This report includes data from the pilot period.

Notes:

1. "Completed" applications are those that homeowners have finished filling out.
2. "Incomplete" applications are those that homeowners have begun to fill out, but are not yet completed.
3. Once applications are completed by homeowners, they are assigned to advisors for review. In some cases, homeowners request assistance filling out their applications and are assigned to advisors for this purpose.

Hardest Hit Funds allocated as of July 28, 2011 totaled slightly over $2 million to homeowners in 39 counties. Nearly $2 million is currently scheduled for disbursement to homeowners in August and September with six additional counties receiving assistance. The table below summarizes disbursements by county. The amount reserved column represents the current amount of the county's allocation that is reserved for individual homeowners accepted to the program. Any unused portion would be recycled back to be used for eligible homeowners in that county.

HHF Disbursements as of July 28, 2011			
County	**Amount Spent to date**	**Amount Scheduled for Disbursement in August and September**	**Amount Reserved**
Alachua	$ 3,867.42	$ 4,374.58	$ 54,000.00
Baker			

(Cont.)

Bay	$ 3,074.87	$ 6,149.74	$ 54,000.00
Bradford			
Brevard	$ 21,074.85	$ 65,370.21	$ 828,000.00
Broward	$ 63,097.00	$ 203,639.22	$ 1,962,000.00
Calhoun			
Charlotte	$ 8,198.29	$ 19,557.64	$ 180,000.00
Citrus	$ 1,338.00	$ 1,908.00	$ 36,000.00
Clay	$ 10,393.34	$ 13,394.52	$ 198,000.00
Collier	$ 5,158.20	$ 18,341.56	$ 144,000.00
Columbia	$ 795.00	$ 1,590.00	$ 18,000.00
DeSoto		$ 2,652.49	$ 36,000.00
Dixie	$ 344.40	$ 688.80	$ 18,000.00
Duval	$ 33,150.19	$ 101,447.93	$ 1,782,000.00
Escambia	$ 3,942.67	$ 11,485.18	$ 144,000.00
Flagler	$ 6,905.15	$ 18,234.49	$ 216,000.00
Franklin			
Gadsden		$ 1,393.32	$ 18,000.00
Gilchrist			
Glades			
Gulf			
Hamilton			
Hardee			
Hendry			
Hernando	$ 12,838.26	$ 23,742.78	$ 252,000.00
Highlands		$ 1,675.09	$ 36,000.00
Hillsborough	$ 26,656.22	$ 57,100.49	$ 612,000.00
Holmes			
Indian River	$ 2,814.07	$ 14,244.16	$ 162,000.00
Jackson			
Jefferson			
Lafayette			
Lake	$ 9,095.14	$ 27,230.79	$ 324,000.00
Lee	$ 1,505,431.00	$ 518,828.86	$ 10,490,000.00
Leon	$ 2,950.92	$ 7,811.08	$ 72,000.00
Levy			
Liberty			
Madison			
Manatee	$ 9,628.82	$ 26,389.98	$ 198,000.00
Marion	$ 9,732.83	$ 27,060.24	$ 432,000.00
Martin	$ 11,319.32	$ 18,619.58	$ 90,000.00
Miami-Dade	$ 34,139.99	$ 118,299.32	$ 1,080,000.00
Monroe	$ 1,819.61	$ 3,639.22	$ 18,000.00
Nassau	$ 1,809.73	$ 5,106.56	$ 54,000.00
Okaloosa	$ 1,135.74	$ 3,488.06	$ 36,000.00

(Cont.)

Okeechobee		$ 604.39	$ 18,000.00
Orange	$ 38,157.66	$ 86,971.69	$ 1,044,000.00
Osceola	$ 5,153.01	$ 15,389.13	$ 198,000.00
Palm Beach	$ 85,333.99	$ 233,447.74	$ 2,124,000.00
Pasco	$ 19,072.05	$ 43,713.62	$ 540,000.00
Pinellas	$ 6,513.89	$ 34,206.36	$ 558,000.00
Polk	$ 2,494.04	$ 11,194.74	$ 162,000.00
Putnam	$ 911.04	$ 1,822.08	$ 18,000.00
Saint Johns	$ 6,118.20	$ 13,900.02	$ 144,000.00
Saint Lucie	$ 27,326.13	$ 73,659.63	$ 756,000.00
Santa Rosa	$ 2,435.98	$ 5,521.96	$ 54,000.00
Sarasota	$ 2,878.61	$ 14,633.74	$ 180,000.00
Seminole	$ 16,724.04	$ 47,564.11	$ 558,000.00
Sumter		$ 664.70	$ 18,000.00
Suwannee		$ 1,065.58	$ 18,000.00
Taylor			
Union			
Volusia	$ 20,047.90	$ 43,559.10	$ 558,000.00
Wakulla		$ 2,330.16	$ 36,000.00
Walton			
Washington			
Totals	**$ 2,023,877.57**	**$ 1,953,712.64**	**$ 26,528,000.00**

Source: Florida Housing Finance Corporation. This report includes data from the pilot period.

Florida's Hardest Hit Fund Moving Forward

In keeping with the HHF's mandate of flexible, locally focused implementation, Florida's program has evolved and will continue to evolve as homeowner applications and closings accrue. During the Lee County pilot review in January 2011, FHFC worked with Governor Scott's office to modify some of the original UMAP and MLRP terms of assistance. In an effort to make the program available to more homeowners, the pilot's maximum single homeowner funding amount of $35,000 was reduced to the current maximum funding amount of $18,000. In addition, the pilot program's 18-month long assistance period was shortened to the present 6 month timeframe. The effect of these changes was to increase the total anticipated number of homeowners aided from 29,000 to the current 53,000.

This ability to modify HHF parameters as time moves forward is central to the program's state-based objectives according to the FHFC. Should future Florida economic conditions indicate that existing requirements are not working, steps may be taken to tighten or loosen HHF terms as needed. Likewise, if processing inefficiencies develop along homeowners' application-to-closing routes, the FHFC can redeploy resources to streamline procedures. Finally, if programs other than UMAP or MLRP prove successful in other states (e.g. Nevada's Short Sale Acceleration or California's Relocation Assistance), FHFC could consider adding these options to Florida's menu of programs.

Treasury requires state HHFs to report on whether homeowners are still in their homes at both the six month and the twelve month period after program assistance has ended. This is the gauge that will be used to measure whether the assistance led to a sustainable homeownership outcome for the homeowner. Meaningful sustainability data will begin to present itself in 2012 and beyond.