



Hardest Hit Fund Proposal

September 1, 2010

INTRODUCTION

The Tennessee Housing Development Agency (THDA) appreciates the opportunity to participate in the third round of Treasury's HFA Hardest Hit Fund (HHF). THDA is uniquely qualified to develop and administer programs to utilize the Hardest Hit Fund dollars, as it is a leader in designing and implementing programs to help families stay in their homes and to prevent avoidable foreclosures.

THDA administers the National Foreclosure Mitigation Counseling (NFMC) program which provides foreclosure counseling and budgeting assistance to homeowners at risk of losing their homes. Since 2008, more than 6,400 Tennessee homeowners have received services under this program. In order to administer this program, THDA has developed a strong network of partners to assist homeowners in need. Collectively, THDA has over 60 NeighborWorks Certified counselors in a statewide network of 19 counseling agencies.

In partnership with housing counseling agencies and others, THDA has designed a program using the Hardest Hit Fund. This initiative will help struggling Tennessee homeowners avoid foreclosure, when possible, and may help stabilize neighborhoods impacted by large numbers of foreclosures.

THDA has used the following guiding principles in developing its proposed program:

- **Foreclosure Prevention** – The primary intent is to preserve homeownership and prevent a foreclosure.
- **Inclusion** – THDA wants to include as many homeowners as possible in defining program eligibility assistance.
- **Simplicity** – The program should be easy to explain to homeowners, easy for homeowners to apply for, and easy to administer and monitor.
- **Timeliness** – The program should begin assisting homeowners quickly (e.g., within 60-90 days of program approval by Treasury).
- **Scale/Impact** – The program should have a measurable impact on the foreclosure crisis, particularly hardest hit/target counties, in Tennessee.
- **Concentration on “Hardest Hit”** – Workers suffering job loss will be the primary beneficiaries of our program.

Although HHF assistance will be available statewide, homeowners living in distressed (“hardest hit”) counties will be eligible to receive additional assistance.

THDA received input from THDA's lending partners and counselors in THDA's network of foreclosure counselors through various phone calls and a joint conference call. These efforts produced insightful questions and valuable suggestions that have been considered/incorporated into the overall THDA strategy and program development. In addition, THDA's internal leadership team and Board of Directors (which represents a variety of housing organizations statewide) played a key role in developing the proposed program. As a result, the THDA proposal draws on the considerable knowledge and experience of THDA staff and of representatives of housing organizations across the state.

Item A:

OVERVIEW OF PROGRAM

Based on feedback from THDA's Board of Directors and other industry partners, THDA will focus on the following needs:

- Unemployed homeowners who, through no fault of their own, are unable to make their mortgage payments and are in danger of losing their homes to foreclosure.
- Underemployed homeowners struggling with unaffordable mortgages as the result of an uncontrollable decrease in income and/or an uncontrollable increase in household expense.

THDA proposes to use HHF to create a program to address these needs. HHF will provide a 0% interest, non-recourse, deferred-payment, subordinate loan that will be forgiven after 5 years. The loans will assist an estimated 11,211 homeowners who are unemployed or are substantially underemployed. Loan funds will pay monthly mortgage and mortgage-related expenses (i.e., property taxes, homeowner insurance and homeowner dues) while the homeowner seeks or trains for a new job. Loan funds will also help cover past-due mortgage payments (arrearages). Homeowners in "hardest hit" counties will be eligible to receive up to \$20,000 (not to exceed 18 months of assistance). Homeowners in other counties will be eligible for up to \$15,000 (not to exceed 12 months of assistance).

THDA estimates that the remaining \$25.4 million (11.73%) of HHF will be used to cover administrative costs and partner expenses.

Background on Unemployment and Foreclosures in Tennessee

The current recession has posed significant challenges for the state and the nation, but in many respects Tennessee was already in the midst of a broad economic shift before the recession hit. Tennessee traditionally has had a heavy concentration of manufacturing jobs, but it has been losing manufacturing jobs for at least the past two decades. In 1990, the state had nearly 500,000 manufacturing jobs, accounting for one in four jobs in the State (23%). By 2001, 43,300 of those jobs had been lost, but the biggest declines were yet to come. The national recession in 2001 hit non-durable goods producing industries especially hard in Tennessee, shedding 98,300 jobs from 1990 to the end of 2007. By January of 2008, only 380,000 manufacturing jobs remained in the state. In the current two-year downturn, another 70,300 manufacturing jobs have been lost. Across all sectors, more than 178,500 jobs were lost between 2007 and 2009. Not surprisingly, unemployment rates are high statewide, although there are distinct differences among counties.

Tennessee is made up of 95 counties, some urban and some rural. For instance, Nashville, Memphis, and Knoxville are major regional centers in middle, west, and east Tennessee, respectively. Other outlying areas are largely rural. Many rural areas have not participated in the shift to the knowledge-based economy that has prospered in the urban areas of the state and, in many instances, they have also suffered declines due to loss in traditional manufacturing jobs, such as textiles and apparels. Rural Tennessee counties have less diversified economies; in certain counties the entire county economy heavily depended on one large manufacturing company. For example, in 65 out of 95 counties, 1 in every 3 jobs was in the manufacturing sector in 2001. When these plants close, there are often literally no other employers in the town. Also, the jobs have tended to be low-skill and to require only a low level of education. Once laid

off from their factory job, few of these workers can find another job without some form of education or retraining.

In the current recession, unemployment rates rose very quickly. From January 2008 through June 2010, the state unemployment rate increased from 6.1% to 10.0%. The statewide average unemployment rate masks the depth of the crisis for some Tennessee counties. In 2009, 60 counties had unemployment rates higher than 11.5%, 1 percentage point above the state average unemployment rate, and 31 counties had rates higher than 13.5%, 3 percentage points higher than the state average. Many of these high-unemployment counties are the same counties where manufacturing was most heavily concentrated, so workers face a double burden—the loss of their jobs, coupled with the knowledge that few, if any, of these jobs will return. Because the job loss is concentrated, there is a high risk that whole communities may be destabilized.

In 2009, Haywood County, in the rural west portion of the state had an unemployment rate of 16.2%, and 7.2 % of the loans in the county were 30 or more days delinquent (according to data from the Federal Reserve Bank of New York). Neighboring Lauderdale County had an unemployment rate of 18.9% and a 30-day delinquency rate of 6.5%. In the past two years, Lauderdale County lost 565 jobs, including 550 in the manufacturing sector.

Tennessee's traditional textile, apparel, and furniture industries are visible casualties of the economic downturn, but the current recession has also hit the state's transportation equipment manufacturing sector, along with motor vehicle and parts dealers. Between 2007 and 2009, more than 25,000 Tennessee jobs were eliminated in those sectors. Many of these jobs were located in the middle Tennessee area, and this concentrated impact has been especially hard on the communities there. Recent research confirms the key role that unemployment and loss of income play in home foreclosures. According to data from Freddie Mac, 58% of all delinquencies are triggered by unemployment or a curtailment of income. Not surprisingly, many Tennessee counties with the highest unemployment rates have experienced a large number of mortgage delinquencies or foreclosures. Between December 2008 and December 2009, the number of loans that were more than 90 days delinquent increased from 3.16% to 4.77% (MBA quarterly surveys Q408 to Q409).

The design of THDA's Hardest Hit Fund Program (HHFP) is based on THDA's understanding of the foreclosure crisis in Tennessee. The following indicators illustrate the extent of the crisis:

- An estimated 121,324 homes in Tennessee will be lost through foreclosure between 2009 and 2012, according to the Center for Responsible Lending.
- Foreclosure filings for 2009 reached 40,733, with 61 of 95 counties recording an increase. This represents an 8% increase over the number of filings in 2008. Moreover, the pace of foreclosure filings is increasing. For the second quarter of 2010, the 11,944 foreclosure filings represent a 14% increase over the second quarter of 2009. (RealtyTrac: Properties with foreclosure filings).
- Declining real estate values limit the ability of many homeowners to refinance their mortgage. According to an August 2010 report by First American CoreLogic, at the end of the second quarter of 2010 there were 131,786 borrowers in Tennessee who were "underwater" (i.e., homes are worth less than the balance of the mortgage). This comprises 13.8% of all residential properties with a mortgage.

In addition, most unemployed homeowners either do not qualify for existing loss mitigation programs, or the assistance does not last long enough for them to find a new job. A substantial number of Tennessee homeowners are more than three months behind in their mortgage payments, and they may need more than three to six months to find another job. THDA's proposed HHFP will provide more extensive assistance to unemployed homeowners and others suffering a temporary financial hardship due to substantial underemployment (those experiencing a reduction in income of 50% or greater). Loan proceeds will be used to pay their mortgage and mortgage-related expenses while the homeowners look for a job or train for a new one. The initiative THDA is proposing will have a significant impact on these problems, will improve the outlook for Tennesseans who have suffered unemployment, and will strengthen communities experiencing high rates of foreclosure.

Item B:

PROPOSED HHFP DETAILS AND ALLOCATION METHODOLOGY

THDA proposes one program to assist homeowners across the state. As previously described, the majority of Treasury funds will help unemployed and/or underemployed borrowers stay in their homes. The HHFP provides assistance for unemployed and/or underemployed borrowers while they look for a job or retrain for a new career.

The following section describes the proposed program in more detail, outlines the specific goals, and how progress will be measured. This section also describes the population that the program will serve, provides a timeline for fund deployment and implementation and identifies possible obstacles the program may encounter.

THDA's proposed HHFP will assist an estimated 11,211 unemployed and/or underemployed homeowners, who through no fault of their own, are unable to make their mortgage payments and are in danger of losing their home to a foreclosure. THDA will provide assistance to qualified homeowners to achieve the following goals:

- Assist homeowners while they look for a new job
- Assist homeowners while they complete a job training or education program that will enhance their job skills
- Assist homeowners who are re-employed but need help to bring their mortgage current

Tennessee has one of the highest unemployment rates in the country. As of June 2010, the unemployment rate was 10.0%, which translates into more than 304,683 people out of work. The number would be much greater if it included individuals who have given up looking for work, have not filed an unemployment claim as of yet or the self-employed whose businesses have virtually closed and therefore are not captured in the official unemployment rate.

To help eligible homeowners apply for assistance, THDA will build upon the existing statewide network of housing counseling partners who have participated in our foreclosure prevention program, the National Foreclosure Mitigation Counseling (NFMC) program, which we have administered since 2008. Over 6,400 homeowners have received foreclosure counseling and budgeting services from the NFMC program. Our current NFMC partners employ more than 60

foreclosure counselors/specialists with an extraordinary amount of experience. Based on the success of the NFMC program and the partnership networks created to implement them, THDA is confident it can quickly and effectively assemble a network to administer the proposed HHFP.

The HHFP will provide a 0% interest, non-recourse, deferred-payment, subordinate loan that will be forgiven in years one through five at a rate of 20% per year. THDA will use loan proceeds to pay the homeowner's mortgage and mortgage-related expenses (i.e., property taxes, hazard insurance and homeowner association dues). The loan proceeds can be used for payments as well as any arrearages while staying within the confines of the maximum benefit. These payments will be made directly to the Servicer, not to the borrower. The following types of assistance will be available:

- Standard benefit counties: \$15,000 up to 12 months
- Targeted benefit counties: \$20,000 up to 18 months

Loan funds are due and payable if the property is sold, refinanced or no longer owner-occupied (unless otherwise prohibited under applicable federal law). Loans are repayable only from proceeds to the borrower from a sale or refinance. If the property is sold or refinanced and has not increased in equity to the degree necessary to repay the note, all or a portion of the note will be forgiven.

Goal

THDA estimates 11,211* unemployed or underemployed homeowners will be assisted over a three-year period. Our projected annual goals for HHFP are as follows:

Year 1	4,768 homeowners assisted
Year 2	4,768 homeowners assisted
Year 3	1,675 homeowners assisted

We have budgeted \$191,827,011 million, or 88.27% of HHF, to support the program. This allocation assumes HHFP loans with 44% at \$20,000 and 56% at \$15,000, resulting in an average loan amount of \$17,200.

Measuring Program Success/Progress

Progress will be measured by the total number of foreclosures prevented. THDA will collect the following metrics (discussed in greater detail in Tracking & Reporting – Item C on page 12):

- Number of homeowners assisted
- Number of homeowners assisted who were six or more months delinquent and in imminent danger of a foreclosure

**Our estimate of 11,211 loans is based on an analysis of number of active loans, using data from the NY Federal Reserve Bank, the unemployment rates for each county, and county delinquency rates. We developed a share of potential program beneficiaries from the targeted counties (44%) and the non-targeted counties (56%). Assuming each homeowner would use the maximum benefit available, we estimated the number of potential beneficiaries from each group of counties, with an estimated total number of 11,211.*

- Number of homeowners assisted who were six or more months unemployed
- Number of homeowners who completed a job search or job training program and secured employment within two months of their assistance ending

In addition, THDA will look at the number of homeowners assisted in targeted “hardest hit” counties for all the above metrics to measure the effectiveness of the targeting effort.

Target Populations

For HHFP, the target population is unemployed and/or substantially underemployed homeowners (those experiencing a reduction in income of 50% or greater), who are financially unable to make their payments and are in danger of losing their home. This includes homeowners who have suffered a program-eligible hardship. There are combined household income limitations of \$74,980 and the total combined outstanding mortgage amount cannot exceed \$226,100.

While HHFP assistance will be available statewide, a larger benefit will be available to homeowners living in targeted or “hardest hit” counties. “Hardest hit” counties are designated by THDA as counties with at least two of these three factors:

- with 2009 unemployment rates higher than the statewide average of 10.6%;
- a high percentage of the state’s foreclosure filings;
- or a high rate of mortgage loans that are 30-90+ days delinquent.

See Exhibit C for Map.

Timeline

THDA expects to implement the program within 60-90 days of approval by Treasury.

Implementation will include developing a software program and web portal for the homeowner, counselors, and THDA, preparation of marketing materials, legal documentation, and monitoring tools. It will also include training for housing counseling partners. When the HHF funds become available in Tennessee, THDA anticipates an initial surge in demand due to the high number of homeowners who are already at risk of default or foreclosures. Therefore, THDA anticipates approving approximately 4,768 participants in the first year of the program, 4,768 in the second year and 1,675 in the third year. THDA will draw funds monthly. The HHFP will continue using recycled funds until 2017 when all funds must be returned to Treasury.

Obstacles

The greatest obstacle we anticipate is the dramatic increase in the volume of applications to be reviewed and loans to be delivered. Our housing counselor partners have indicated they currently have the capacity to handle increased volume, however, we will need to build our own capacity and help our partners further build theirs in order to assure the appropriate management of the increased volume of applications and loans.

We are exploring ways to strengthen and streamline the approval, closing, and payment documentation processes in order to handle the increased volume efficiently. We are planning to use a web-based portal to receive, underwrite and track applications electronically. We will also need to add staff to assist with intake, application review, and closing the loans.

To determine how best to help partner agencies increase their capacity we have sought their ideas through conference calls and individual agency/partner discussions. We have also utilized our Lender Advisory Board to receive feedback and suggestions.

Leveraging of Other Resources

The proposed HHFP builds upon the expertise of THDA staff, including its Single Family Programs division which includes the Homebuyer Education Initiative encompassing Foreclosure Prevention, as well as a strong network of housing counseling partners. HHFP also builds upon THDA's experience in successfully managing the National Foreclosure Mitigation Counseling (NFMC) program in Tennessee.

Any funds returned according to established program guidelines will be used to assist additional homeowners through December 31, 2017. After December 31, 2017, any remaining or recaptured funds will be returned to Treasury.

Item C:

DEMONSTRATION OF CAPACITY TO IMPLEMENT

The Tennessee Housing Development Agency (THDA) was created in 1973 by the Tennessee General Assembly as a self-supporting entity to provide access to affordable housing for Tennesseans with low and moderate incomes. To accomplish its mission, THDA provides capital and technical expertise and builds private and public partnerships, matching its resources with the resources of lenders, builders, local governments, and housing producers throughout the state.

THDA's programs are funded primarily through federal programs (Mortgage Revenue Bonds, HOME, Low Income-Housing Tax Credits, etc.). THDA uses its resources to fund housing development activities in homeownership, rental production, rehabilitation, rental assistance and supportive housing.

Since its creation, THDA has provided financing for real estate activity valued at \$6.9 billion and helped 177,030 households obtain safe, decent, and affordable housing. During 2009 THDA provided financing and tax credits to support \$175.8 million of real estate development. This investment created or rehabilitated 6,825 homes and apartments. THDA also provides housing and rental assistance for 36,343 Tennessee households with low and moderate incomes.

THDA has business processes in place to receive and disburse funds to minimize the risk for fraud, waste, abuse, or mismanagement of funds. THDA has separation of duties between the program groups who underwrite and approve the loans and the finance group that accounts for and disburses the funds. For the past several years, THDA has received no findings during its annual financial audit. (Audit, internal controls, and fraud risk mitigation are discussed in greater detail in Item F.)

THDA has built a statewide partnership network of counselors to help facilitate the successful administration of the National Foreclosure Mitigation Counseling Grant program (NFMC). THDA has received NFMC grants in 2008, 2009, and 2010. Sponsored by NeighborWorks, the NFMC program provides funding for a variety of loss mitigation services by participating housing counseling partners.

Finally, THDA has a seasoned staff of experienced underwriters, outreach and business development personnel, closing and legal staff. Its capabilities include an effective quality control process and staff who monitor the performance of THDA's portfolio and staff activities.

Qualification As An Eligibility Entity

In accordance with the HHF Guidelines published by the US Department of Treasury, each recipient of funding from the HHF must qualify as an "Eligible Entity." An "Eligible Entity" is a "financial institution", as that term is defined in the Emergency Economic Stabilization Act ("EESA"). The Tennessee Housing Development Agency ("THDA") is an "Eligible Entity" for purposes of the Hardest Hit Fund Initiative. THDA is a body, politic and corporate, established under Tennessee Code Annotated, Section 13-23-101, et seq. THDA is regulated by the State of Tennessee as demonstrated in Tennessee Code Annotated Section 13-23-107, that provides for the appointment of 14 Board members by the Governor, the Speaker of the House and the Speaker of the Senate, and Tennessee Code Annotated Section 13-23-106, that provides for the state treasurer, the state comptroller of the treasury, the state commissioner of finance and administration, the secretary of state and a staff assistant to the Governor to be THDA Board members. THDA has the power to (i) receive funds from the US Treasury, (ii) enter into contracts, and (iii) operate independently.

Key Staff

Ted R. Fellman, Executive Director

Ted R. Fellman was appointed as the Executive Director of the Tennessee Housing Development Agency (THDA) in 2005. Ted has been responsible for transforming THDA into a leader in affordable housing and a resource for housing providers and advocates. Under his leadership THDA has created a housing trust fund to provide grant funds for Tennesseans of very low income, with special needs or above 60 years of age. THDA has received numerous accolades, including for program excellence and management innovation from the National Council of State Housing Agencies (NCSHA). Ted is a 25-year veteran of state government and has worked at THDA in leadership capacities since 1995. He has a master of public administration from Tennessee State University. He currently serves on the Board of Directors for the NCSHA.

Lynn Miller, Deputy Executive Director and General Counsel

Lynn Miller has been with THDA for 17 years and is responsible for all legal issues in all matters related to THDA. Her responsibilities include providing legal and programmatic advice for decision-making with respect to structuring and implementing all THDA programs. Ms. Miller is knowledgeable about federal and state laws, regulations and various funding sources and programs related to housing, including Mortgage Revenue Bonds, Low-Income Housing Tax Credits, Tax Credit Assistance Program (TCAP), Grants to States for Low-Income Housing Projects In Lieu of Low Income Housing Tax Credit Allocation (Section 1602), HOME,

Neighborhood Stabilization Program (NSP), National Foreclosure Mitigation Counseling (NFMC), Homelessness Prevention and Rapid Rehousing Program (HPRP). Prior to joining THDA, Ms. Miller's law practice centered on commercial real estate, commercial real estate financing and construction with Boulton, Cummings, Connors & Berry in Nashville, TN. Prior to practicing law, Ms. Miller was Director of Advance Planning for the Chattanooga-Hamilton County Regional Planning Commission in Chattanooga, Tennessee and was a principal planner with the Tennessee State Planning Office. Ms. Miller earned a Bachelor of Arts degree from Wittenberg University; a Master of Science in Planning degree from the University of Tennessee; and a Doctor of Jurisprudence degree from Vanderbilt University.

Trent Ridley, Chief Financial Officer

Trent Ridley has been with THDA for four years as its Chief Financial Officer. As a member of THDA's Senior Executive Team, Trent is responsible for ensuring the integrity of all the financial systems, transactions and reports of the organization. This position is also responsible for managing the administrative functions of the organization, including the Finance, Fiscal Administration, and Information Technology divisions. Prior to his employment with THDA, he held positions with the State of Tennessee, including the Department of Health, Rehabilitative Initiative in Correction, and the Department of Finance and Administration. Trent is a graduate of Middle Tennessee State University with a bachelor of business administration.

Lorrie Shearon, Chief Strategy Officer

Lorrie Shearon, a 14-year veteran of THDA, is responsible for developing and leading execution of strategy for THDA, ensuring that decisions continue to be made in alignment with the organization's mission. As a member of THDA's Senior Executive Team, Lorrie oversees management of information on the housing industry as well as public policy research on housing issues. She works with other agencies in coordinating community development activities. She also coordinates the work of the statewide affordable housing coalition, along with its chairperson, and has established industry specific advisory boards to work with THDA. Lorrie's previous experience includes the State Administrative Office of the Courts as well as the Federal Energy Regulatory Commission in Washington, D.C. She holds a master's degree from George Washington University.

Laura Sinclair, Senior Director of Single & Multifamily Programs

Laura Sinclair oversees the THDA mortgage loan portfolio consisting of over 26,000 loans totaling \$2.6 billion. Laura is responsible for oversight of the origination, servicing, business development, the Homebuyer Education Initiative (HBEI) of the Mortgage Revenue Bond program at THDA as well as the administration of the BUILD and Preserve loan programs for non-profits. In addition, Laura is responsible for the National Foreclosure Mitigation Counseling Grant. Furthermore, Laura oversees the Multifamily Development Program for THDA. Laura has over 25 years of experience in the Mortgage Banking industry, including loan origination, underwriting, secondary marketing, information technology, operations management, and the administration and management of Single Family Programs within the Housing Finance Agency arena. Prior to joining THDA, she was with Columbia National Mortgage, the New Mexico Mortgage Finance Authority (HFA), North American Mortgage Company and PaineWebber Mortgage Finance Company. Laura earned her bachelor's degree in economics from the University of New Mexico.

Bill ClenDening, Foreclosure Prevention Manager

Bill ClenDening is the primary administrator of the National Foreclosure Mitigation Counseling Program and works closely with THDA's network of Foreclosure Prevention counselors through this grant. With the addition of the HHF Program, Bill's role will be expanding to enable him to manage the day to day operations of the HHF Program, working closer with THDA's counseling agency network, providing ongoing training and support as well as managing the in-house counseling and underwriting departments. Bill has served as a Homebuyer Education Initiative (HBEI) Specialist at THDA where he was responsible for providing support to the overall administration of the HBEI program and is the primary contact for THDA's BUILD Loan Program. Bill's previous experience includes several years as a REALTOR® and serving as the Chief of Operations/Vice President of a real estate company. He has a Bachelor of Science degree from Middle Tennessee State University.

Nicole Lucas, Director of Information Technology

As the Director of Information Technology, Nicole is responsible for planning, establishing the strategy, short and long term directions, policies and procedures, and providing administrative and technical direction to the Information Technology (IT) staff. Nicole plans, evaluates, procures, and assists in designing, developing, and implementing technology-related systems throughout the organization. Nicole has worked in the field of information technology for over 13 years. She received her bachelor of science from Western Kentucky University and is currently pursuing a master of public administration degree at Tennessee State University.

Joe Brown, Director of Finance and Controller

Joe Brown has been THDA for 18 years. Joe oversees THDA's financial operations, accounting, purchasing, contracting, and facilities. His prior experience includes Comptroller of the Treasury of Tennessee in the Division of State Audit as a Legislative Auditor performing financial and compliance audits of the State's Departments, educational institutions, and other State agencies. Joe is a Certified Public Accountant in the State of Tennessee. He has a B.S. from East Tennessee State University.

Tracye Mayolo, Director of Human Resources

As the Director of Human Resources, Tracye provides vision and leadership for THDA's current and future human resource needs. She oversees all human resources activities for the organization, including recruitment, retention, compensation, benefits, employee relations, training, and legal and regulatory compliance. Tracye has more than 20 years of experience in leading the HR functions in both the private and public sector. Tracye has a bachelor of business administration degree from Middle Tennessee State University and has obtained several industry certifications including the Senior Professional in Human Resources (SPHR).

Mary McLennan, Director of Research and Planning

Mary McLennan has ten years of experience with THDA. She is primarily responsible for working with other agencies to coordinate community development activities, including developing comprehensive state housing plans, tracking statewide housing program activity, and encouraging and providing technical assistance to outside groups to initiate housing programs. She oversees THDA's research on housing issues, including tracking and compiling information on housing programs statewide, their level of activity, and comparisons to plans. Mary's

previous experience includes 20 years in community development with a regional council of governments. Mary has a master's degree in public administration from Georgia State University.

Patricia M. Smith, Director of Public Affairs

Patricia M. Smith directs THDA's efforts with internal and external communications to make THDA's services more widely known with elected officials, business partners and the general public. She has 20 years of experience with THDA. She also was a communications professional for the American Red Cross. She holds a B.S. degree from George Peabody College at Vanderbilt University.

Wayne Beard, Director of Finance

Wayne Beard directs THDA's debt management and investment of funds, including THDA's mortgage revenue bond program. The organization has \$1.9 billion in outstanding bonds and an investment portfolio valued at \$600 million. Wayne has 25 years of experience with THDA. Wayne is a Certified Public Accountant in the State of Tennessee. He holds a B.S. degree from Tennessee Technology University.

Ron Erickson, Director of Internal Audit

Ron Erickson directs THDA's internal audit division and reviews all THDA programs and servicing institutions. Ron has 30 years of governmental audit experience, including the recent ten years with THDA. Ron's previous experience includes Audit Director for the State Department of General Services as well as Legislative Auditor for the State Comptroller of the Treasury. Ron is a Certified Public Accountant in Tennessee as well as a Certified Government Financial Manager. He holds a bachelor of business administration degree from Austin Peay State University.

Tracking & Reporting

THDA maintains a sophisticated in-house software program, also known as MITAS. The MITAS system provides the ability to record and track all financial data, borrower/household data, and other organizational entity data as explained below.

A separate budget will be maintained for the Hardest Hit funds and every transaction against these funds will be tracked within the MITAS system. This system is used to track all revenues and expenses relating to THDA's Mortgage Revenue Bond Program. All MITAS transactions are imported into the organization's financial accounting and reporting system, Microsoft Dynamics SL, for inclusion in the organization's financial statements, which are audited by the State of Tennessee Comptroller's Office.

THDA will utilize our existing MITAS system for program management and the tracking/recording of pertinent data fields for Hardest Hit programs. This system will be leveraged as built or modified as needed to support the Hardest Hit programs. It records and tracks multiple layers of property and borrower data fields, including, but not limited to the following: property address, appraised values, income, number of occupants, age of occupants, and loan-to-values (LTVs). This system has multiple pre-formatted reports and report generation capabilities for parsing data as needed on an ad hoc basis.

In addition, THDA plans to use a web-based portal to facilitate the promotion and collaboration among all key stakeholders including counseling agencies, servicers, lenders, and borrowers. Data and documentation from the web-based portal will be downloaded to THDA's MITAS system at the appropriate time to support program management and borrower/case review, underwriting, loan closings, etc.

THDA proposes the following program success metrics to be reported quarterly or as requested by Treasury:

- Expected vs. actual figures for funds disbursed and homeowners assisted

For existing homeowners assisted:

- Number of unemployed who were six months or more delinquent in their mortgage and in imminent danger of foreclosure
- Number who completed a job search and/or job training/education program and secured employment within two months of assistance ending
- Number assisted within targeted counties

Item D:

STAFFING & BUSINESS PARTNERS

To implement the Hardest Hit Fund programs, THDA will use a combination of existing employees, outside contractors, and external partners. THDA has an experienced staff and a history of successfully implementing programs in collaboration with other Tennessee state agencies and external partners. The staffing plans for our programs are as follows:

Hardest Hit Fund Program

THDA anticipates first utilizing existing staff to facilitate preparation for the program. THDA's Single Family Mortgage Programs staff is able to absorb initial planning functions as well as years 4-7 as the program winds down. In addition, THDA plans to utilize the experience and knowledge of its Foreclosure Prevention staff to manage the day-to-day operations of the program. An IT Developer will be hired to assist in developing the software program necessary to manage the collaboration and communication between THDA, the counselor, and the homeowner. Several contract/temporary foreclosure prevention staff positions will be dedicated to this program. THDA will hire contractors/temporary employees to assist with an HHF call center, IT, accounts payable, underwriting loans, preparing loans documents, and closing loans. These staffing estimates are based on THDA's experience managing our existing Single Family Mortgage Program. See Exhibit D for a detailed organizational chart.

Counseling Network

In order to provide the highest level of service to Tennessee homeowners, THDA has chosen to utilize its existing, proven network of foreclosure counseling agencies to implement the counseling components of Tennessee's HHFP.

With nineteen agencies and sixty plus counselors distributed throughout the state, this group has provided foreclosure counseling to over 6,400 homeowners over the past two years. Residents of 92 of the 95 Tennessee counties have benefited from this effort.

Through the implementation of the National Foreclosure Mitigation Counseling Program as administered by THDA as a grantee, and sponsored by NeighborWorks, these agencies and counselors have evolved and grown, as has the relationship between them and THDA. To date, more than \$3.2 million has been provided to help these agencies expand their foreclosure prevention services. The program requires careful client tracking, which is monitored and coordinated through an online information system shared by the counseling agencies and THDA.

Of that amount, THDA has provided more than \$498,000 in match funding, a tangible manifestation of THDA’s commitment to Tennessee homeowners, resulting in significant additional counseling funds for our agencies as well as ongoing training and educational and networking events.

Taking advantage of this already established collective of experience and knowledge both simplifies and strengthens Tennessee’s HFFP, greatly increasing the chances of success for these homeowners and the success of the entire effort.

The utilization of this existing network will expedite the rollout of the program, and given the extreme time constraints involved, will afford the earliest possible start date.

Following are the agencies that comprise this network, along with their base city and region:

Agency	City	Region
Chattanooga Neighborhood Enterprise	Chattanooga	East
Clinch Powell RC&D	Rutledge	East
Eastern Eight CDC	Johnson City	East
Knox Housing Partnership	Knoxville	East
Knoxville Area Urban League	Knoxville	East
Affordable Housing Resources	Nashville	Middle
Citizens for Affordable Housing	Nashville	Middle
Dominion Financial Management	Smyrna	Middle
GAP Community Development Resources	Franklin	Middle
Life of Victory International Christian Ministries	La Vergne	Middle
Residential Resources, Inc.	Nashville	Middle
The Housing Fund, Inc.	Clarksville	Middle
Woodbine Community Organization	Nashville	Middle
Binghampton Development Corporation	Memphis	West
Financial Counselors of America	Memphis	West
Jackson Housing Authority	Jackson	West
Memphis Area Legal Services, Inc.	Memphis	West
Southeast Memphis CDC	Memphis	West
United Housing, Inc.	Memphis	West

In order to determine expected production and an initial startup allocation for our agencies in our foreclosure counseling network, we have chosen to employ the following methodology:

Since all of these agencies have participated in one or more rounds of the National Foreclosure Mitigation Counseling program and we have recently generated production projections for each agency by metropolitan statistical area for the current round of NFMC funding, we are choosing to employ the percentages derived by the historical trends of these agencies.

By taking the overall production numbers from the applicable rounds for each agency and dividing these agency figures by the aggregate numbers for all of the MSA's, we derive a percentage.

We can therefore apply this percentage for each agency to the overall number of loans we expect to make over the life of the program to determine an allocated number of loan units. Adjustments based on overlaying the distressed counties can then be made if needed.

Once the overall number of loans per agency is allocated and multiplied by \$1,000.00, we can multiply the total allocated dollar amount by 10% to derive an upfront initial disbursement.

As the agencies close loans, the per loan amount is debited against their initial disbursement balance until the amount earned is equal to the initial disbursement balance. At that point, production-based disbursements will begin. This will provide the counseling agencies with initial start-up funds needed to implement the program.

Agency	%	# of Loans-11,211	Region
Chattanooga Neighborhood Enterprise	7.73	867	East
Clinch Powell RC&D	4.18	469	East
Eastern Eight CDC	5.5	617	East
Knox Housing Partnership	3.16	354	East
Knoxville Area Urban League	1.51	169	East
Affordable Housing Resources	5.46	612	Middle
Citizens for Affordable Housing	3.62	406	Middle
Dominion Financial Management	5.41	607	Middle
GAP Community Development Resources	5.93	665	Middle
Life of Victory International Christian Ministries	7.62	854	Middle
Residential Resources, Inc.	2.22	249	Middle
The Housing Fund, Inc.	.93	104	Middle
Woodbine Community Organization	8.34	935	Middle
Binghampton Development Corporation	1.85	207	West
Financial Counselors of America	18.61	2086	West
Jackson Housing Authority	.7	78	West
Memphis Area Legal Services, Inc.	10.7	1200	West
Southeast Memphis CDC	1.75	196	West
United Housing, Inc.	4.77	535	West

NOTE: For units that do not come to fruition, yet the counselor has determined HAMP eligibility, we have allocated \$100 per unit for those cases.

In addition to this network, THDA also proposes to add an in-house staff led by an experienced counselor who will act as counseling team leader and coordinator. This counseling team will be the core staff for the HHF call center and will also provide an additional layer of counseling for our network, assisting those homeowners with special circumstances, i.e. self- employed, etc. and also supporting the efforts of those in the counseling network.

While the call center staff will also act in a triage capacity, gathering basic intake to prepare the file and the homeowner for the counseling effort, they will also provide technical assistance for those homeowners who need some guidance through the online application process.

Title Companies

THDA will issue an RFP to title underwriters with agencies located in the state of Tennessee and/or individual title agencies to provide closing and documentation recordation services. Compensation is estimated to be \$150 per closed file plus recording fees.

Program Flow Charts

Flow charts showing the roles of the homeowner, housing counselor, THDA and the servicer are attached. See Exhibit F for Flow Chart.

Item E:

ADMINISTRATIVE EXPENSES

THDA has budgeted \$25,488,581 million to cover estimated costs over the next seven years. These costs include, but are not limited to, salaries (Please see Exhibit E for staffing projections), marketing, auditing, and technology. Also included in this figure is \$15,147,677 million to cover our partners' costs. This amount also includes the cost of recording and wire transfer fees for all of the loans. Please refer to Exhibit B for a complete breakdown of Administrative Expenses.

Item F:

OVERVIEW OF RISK MANAGEMENT/FRAUD PREVENTION

Tennessee Housing Development Agency intends to comply with all requirements of the Emergency Economic Stabilization Act of 2008 (EESA) including but not limited to, allowing full compliance oversight by the Treasury, the Comptroller General of the United States, Government Accountability Office, Congressional Oversight Panel and the Special Inspector General of the Troubled Asset Relief Program (SIGTARP) as to the application of any EESA funds. All books, records and communications regarding the use of EESA funds by THDA will be made available for review by any of these entities upon request.

THDA will accomplish compliance oversight, internal controls and fraud prevention through several means. Policies, procedures and internal controls required to implement our HHF program will be modeled on processes that are already in place and operating as intended. Our Internal Audit division prepares an audit plan each fiscal year based on a risk assessment of all programs and activities within THDA. This risk assessment includes a number of factors, such

as previous audit results, time since last audit, length of program existence, assets or dollars associated with the program, and a number of other factors that lead to projects selected for review each year. Our audit plan will be expanded to include the review of internal and partner's HHFP activities.

THDA performs a periodic assessment and monitoring of internal controls developed and implemented through the annual Enterprise Risk Management process, to ensure that THDA's internal controls in effect adequately safeguard assets, and when taken as a whole provide reasonable assurance of the proper recording of financial transactions, compliance with applicable laws, regulations, rules, contracts and grant agreements, and support the achievement of operational objectives. This internal control review process, which will also be performed for the HHFP, is designed to minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency and effectiveness. Our process includes the following steps as defined below:

- Knowing the Internal Environment – Management obtaining the “big picture” of the organization to direct efforts towards the largest risk areas.
- Setting Objectives - Identify why the organization exists, what needs to be done, and what activities are necessary to achieve business processes in strategic, operational, reporting, and compliance categories.
- Event Identification – Identify events and then the risks that are produced as a result of those events that would impede the organization in meeting its objectives.
- Likelihood/Impact – For each risk identified in Step 3, document management's assessment on the likelihood and impact of the risk.
- Control Activities and Risk Response – Identify the control activities. This is where the internal control evaluation takes place. Each risk previously identified should have a corresponding internal control established to mitigate the effect, or lessen the probability of its occurrence. This is also the area where management tests of the controls document operating effectiveness.
- Final Evaluation – Evaluate the residual risks in the aggregate to determine if total residual risks are within the organization's risk appetite.
- Report Results – complete a management report including proposed internal control improvements that is shared with the Audit & Budget Committee of the THDA Board of Directors, senior executives and external auditors.

THDA proposes to underwrite each HHFP loan before closing. We will also actively monitor the counseling agencies and will receive periodic updates from them on the success of the borrowers who have been assisted. THDA will perform the following activities to ensure that eligible borrowers are receiving the assistance:

- Underwriting of each loan by HHFP staff.
- Verification of the recipient's identity at closing.
- Working with the Tennessee Department of Labor and Workforce Development to ensure appropriate notifications of unemployment benefits, changes, and sharing of continued eligibility information.
- THDA quality control to verify:
 - Borrower Eligibility Criteria

- Property/Loan Criteria
- Program Exclusions
- Program Duration/Extension

Specifically relating to the prevention, detection and deterrence of fraud, THDA's Internal Audit division takes affirmative action each year to remind all staff of required actions for formally and promptly addressing any allegations of fraud, waste or abuse. As excerpted from the American Institute of Certified Public Accountants' Statement on Auditing Standards Number 99, *Consideration of Fraud in a Financial Statement Audit*, the document entitled "Management Antifraud Programs and Controls" is made available to all THDA employees as a tool to help set the framework to prevent, detect and deter fraud. This document will also be provided to our partners to ensure that appropriate oversight is provided to prevent, detect and deter instances of fraud, waste and abuse of HHF funds.

In addition to the above, as THDA is a component unit of the State of Tennessee, we are subjected to annual financial and compliance audits conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit of the Comptroller of the Treasury to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller." Section 8-4-109 of the aforementioned *Code* authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate. These audits are performed after each fiscal year (June 30), and have the following objectives:

- To consider the THDA's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements;
- To determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
- To determine the fairness of the presentation of the financial statements; and
- To recommend appropriate actions to correct any deficiencies.

Although these audits are not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, they include tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. These audits are a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act. THDA has not received any findings in these audits for the past several years.

Section 13-23-128, *Tennessee Code Annotated*, and the THDA Staff and Board Disclosure Policies, require annual disclosure of potential conflicts of interest. These documents are analyzed by the THDA General Counsel and Audit Director to determine whether there are any situations that present an apparent conflict of interest. The analysis process is performed with a final report presented to the Audit & Budget Committee of the THDA Board of Directors each year. These reports are included in the official minutes of the THDA Board of Directors. Staff

with potential conflicts or indirect interests that create an apparent conflict, even if there is no prohibited interest, are to refrain from discussion or participation in THDA activity in connection with the identified conflict. Board members that have actual conflicts are to refrain from discussion and voting on the matter that causes the potential conflict to become an actual conflict. Also, in accordance with the requirements of the THDA Code of Conduct adopted by the THDA Board of Directors on March 15, 2007, even where no actual conflict exists, THDA Board members and staff must refrain from any appearance of impropriety.

In addition to the statutory requirements of *Tennessee Code Annotated* and the Staff and Board Disclosure Policies, certain federal programs administered by THDA have conflicts of interest provisions that apply to THDA Board members, staff and program participants. These provisions are also included in the annual analysis submitted to the THDA Board of Directors.

