

**HOUSING FINANCE AGENCY INNOVATION FUND FOR
HELP FOR HARDEST HIT HOUSING MARKETS**

**FOURTH ROUND SUBMISSION OF THE MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY &
THE MICHIGAN HOMEOWNER ASSISTANCE NONPROFIT HOUSING CORPORATION**

OCTOBER 15, 2010

Background: In February, President Obama announced the availability of funding under the HFA Hardest-Hit Fund. As a participant in both the first and third rounds of Hardest-Hit funding, the Michigan State Housing Development Authority was recently awarded additional funding under the fourth-round expansion of the program.

The Authority is pleased to submit this fourth-round supplemental plan that outlines the incorporation of this additional funding, additional modifications to our existing program design, and associated administrative, implementation, and process changes.

The Authority's prior submissions included three program areas:

- **Unemployment Mortgage Subsidy Program**—provides a subsidy for up to half of an unemployed homeowner's monthly payment not to exceed \$750/month for up to 12 months and includes a rescue component that can assist with arrearages of up to \$3,000.
- **Loan Rescue Program**—provides assistance for homeowners who have faced and successfully resolved a one-time crisis (such as unemployment, family illness or death, divorce, etc.) to catch up arrearages of up to \$5,000.
- **Principal Curtailment Program**—provides up to \$10,000 for homeowners who have suffered a decline in income and whose lenders will provide at least a 1:1 match to reduce and re-amortize the principal balance.

All Hardest-Hit Fund assistance is provided as a subordinate loan secured by a mortgage. Loans are non-interest bearing, non-amortizing, and forgivable over a five year term at 20 percent per year, which is due only from net proceeds of sale upon transfer of the property, or when the property ceases to be the principal residence of the homeowner, or if the mortgagor repays in full any mortgage loan encumbering the property.

With the additional \$215.6 million of funding available to Michigan, we intend to increase funding for both the existing Unemployment Mortgage Subsidy and the Loan Rescue Programs and are proposing various changes in both work flows and the administrative budget. With this additional funding, the Authority's Hardest-Hit Fund programs can be expected to serve at least 49,418 households. Based on our experience to date including statistics on the median per-unit assistance provided within each program area, we expect to serve substantially more Michigan households.

Program Modifications: Attached are Exhibits A and B which reflect revised Term Sheets for our Unemployment Mortgage Subsidy and Loan Rescue Programs respectively. There are no substantive program changes included. The revisions simply reflect revisions to the process flow, increased allocations of program funding, and related projections of households served.

Process Modifications: On an administrative level, the Authority is including plans to implement an “intake portal” process to facilitate the demands of large national Lenders/Service providers such as Bank of America. As outlined in the attached Exhibit C, Intake Portal Work Flow, this will modify the administrative process by which program applicants seek assistance. In so doing, the Authority—through staff or subcontractors—will complete triage reviews of initial applications and forward only applicants we believe are qualified for Hardest-Hit program assistance back to the Lender/Service provider’s loss mitigation staff.

Such a process essentially reverses the current roles whereby Lenders/Service providers screen their borrowers for program eligibility and then submit the package to the Authority. As a result of the changed work flow, administrative costs will increase due to a) requiring additional staffing to sort through preliminary applications, following up with potentially eligible homeowners, and processing Hardest-Hit assistance packages for review by the Lender/Service provider and b) incurring fees to the “portal.” We have not yet determined which portal system to use but are considering both the Springboard/Catalyst and HOPE Loan Port platforms. Based on national statistics, we believe that around two-thirds of initial requests from homeowners may prove ineligible for assistance, leading to substantial increases in the program’s overhead costs associated with this triage.

For those Lenders/Service providers that are already participating in the Authority’s Hardest-Hit Programs, we will maintain the current process flow or allow them to shift to intake portal. We expect many of the smaller community banks and credit unions to retain the existing process.

Revised Administrative Budget: Attached as Exhibit D is the updated administrative budget showing the revised total budget, the previously approved budget, and the changes included as a result of this supplemental submission. Changes are driven by two primary factors:

- Increased funding, even in the absence of any process changes, will necessarily increase the volume and duration of the program. We have, therefore, budgeted for an additional six months of staffing and extended the program timeline accordingly. Other costs associated with the number of households assisted such as recording fees and servicing costs have also been increased to reflect the additional families the program is expected to serve.
- As noted in the Process Modifications section above, modifying the program to use an “intake portal” will necessitate additional staffing and overhead costs.

The costs of the increased staffing and overhead associated with setup and maintenance fees for an intake portal are shown in the administrative budget on the “Key Business Partners On-Going” line item. At this point, however, we are still evaluating two alternative strategies for this function.

One option is to establish a centralized processing center in Lansing that would process inquiries through a web-based portal and an 800-number system. The centralized center would triage initial inquiries, directing clearly ineligible homeowners to local counseling agencies, and assembling

application packages for review by Authority underwriting staff. Alternatively, we are also considering sub-contracting the triage and application assembly to 5-6 regional counseling agencies.

The \$19.1 million budget for these costs includes approximately \$15 million for direct and indirect staffing costs of 30 full-time equivalent employees for a three and a half year period and just over \$4 million in subscription and setup fees benchmarked off of cost estimates provided by the Counselor Direct and HOPE Loan Port systems (again, several portal systems are being evaluated with no decision yet on which the Authority will use). For benchmarking purposes, staff costs are based on the use of civil service employees hired by the Authority. However, regardless of whether a centralized processing center or regional subcontractors are used, we believe the budgeted cost will be adequate.

As before, if there are any reductions in administrative costs, the Authority will seek approval from Treasury to transfer funding to assist additional households.

Population Served: The following table outlines the updated estimates of households served based on the availability of additional Hardest-Hit funding.

Program	Allocation (millions)*	Maximum Individual Assistance	Projected Households Served**
Unemployment Mortgage Subsidy	\$313.9	\$12,750	24,618
Loan Rescue	\$108.8	\$5,000	21,760
Principal Curtailment	\$30.4	\$10,000	3,040
Subtotals	\$453.1		49,418
Administration	\$45.6		
Total	\$498.6		

Notes:

* Figures may not add/divide exactly due to rounding of individual program budgets.

** Households served assumes that all participants receive maximum assistance. It is likely that average assistance will be less, resulting in more households served. For example, if the average monthly subsidy is \$500, and only half of all households need associated rescue funding, average assistance in the Unemployment Mortgage Subsidy Program could be \$9,000, resulting in approximately 34,900 households served. Given our limited program experience to date, including average and median levels of assistance within each program area, it could be possible to serve between 70,000 and 90,000 total households.

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Revised Timeline: The revised timeline below takes into account our experience to date, increased volume and duration of the program, and the continued need to be flexible in implementation. This timeline also assumes that national servicers begin actively participating in the first quarter of 2011 and that Freddie Mac and Fannie Mae provide clear frameworks for Hardest-Hit participation by GSE-held mortgages. Delays in either case will lead to a slower ramp up within the program.

Date	Activities/Progress
July 12, 2010	Begin taking applications for assistance.
Sept 30, 2010	200 borrowers approved for assistance. Ongoing review of program effectiveness, updates/modifications needed, and allocation of funding between programs. Begin random auditing of project files.
Dec 31, 2010	700 borrowers approved for assistance. Ongoing review of programs. Note: Borrowers approved figures represent cumulative totals since program inception, not quarterly production estimates.
March 31, 2011	3,200 borrowers approved for assistance. Ongoing review of programs.
June 30, 2011	8,200 borrowers approved for assistance. Ongoing review of programs.
Sept 30, 2011	13,700 borrowers approved for assistance. Ongoing review of programs.
Dec 31, 2011	19,200 borrowers approved for assistance. Ongoing review of programs.
March 31, 2012	24,200 borrowers approved for assistance. Ongoing review of programs.
June 30, 2012	29,200 borrowers approved for assistance. Ongoing review of programs.
Sept 30, 2012	34,200 borrowers approved for assistance. Ongoing review of programs.
Dec 31, 2012	39,200 borrowers approved for assistance. Ongoing review of programs.
March 31, 2013	44,200 borrowers approved for assistance. Ongoing review of programs.
June 30, 2013	49,418 borrowers approved for assistance. Ongoing review of programs.
Sept 2013 & beyond	Continue payments on Unemployment Mortgage Subsidy Program projects* as appropriate. Commit any remaining or additional funding as available, and begin winding down programs as appropriate while continuing to collect outcomes data from assisted borrowers. Reduce staffing levels.
*Implicit within the Unemployment Mortgage Subsidy Program is the need to continue administration of individual files for 12 months beyond the initial funding commitment to any given homeowner. So a borrower receiving a funding commitment in 2013 may continue to receive monthly subsidy contributions into 2014.	