

**Hardest Hit Fund Proposal**  
**Home Saver Program**  
*Mississippi Home Corporation*  
*August 2010*

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**INTRODUCTION**

Over the past five years, Mississippi has faced the hardships of Hurricane Katrina, the national economic crisis, and the Gulf oil spill. All three events have had a dramatic impact on the ability of Mississippi borrowers to sustain homeownership. These events helped lead to housing price declines, higher unemployment rates, and an increase in the number of foreclosures throughout the State.

The Mississippi Home Corporation (MHC), the State of Mississippi's Housing Finance Agency, looks forward to participating in the Hardest Hit Fund (HHF) Program, sponsored by the U.S. Department of Treasury.

A large portion of Mississippi's population lives in economically distressed areas where the combination of high unemployment and reduced home values has pushed mortgage foreclosure rates to unprecedented levels, which contributes to destabilized housing markets. By 2014, it is estimated that there will be more than 250,000 Mississippi borrowers with incomes at or below 80 percent of the Median Family Income.

Industry experts and analysts attribute the high rate of delinquency and foreclosure over the past decade in Mississippi to two primary factors: 1) Mississippi had the highest rate of subprime lending in the country (in 2006, 41.3% of all non-federally insured mortgage loans originated for single-family homes in the state were subprime), and; 2) Hurricane Katrina helped push delinquency rates over 12%. Even before Hurricane Katrina, Mississippi had the third highest foreclosure rate in the country. In 2007, Mississippi had the highest percentage of loans past due and the eighth highest rate of foreclosures nationwide.

The MHC HHF fund will offer a standard benefit in all counties with a longer maximum benefit amount available to: 1) eligible borrowers in distressed counties, and 2) eligible borrowers that participate in an educational program that leads to a certification or degree at one of the state's Community Colleges or 4-year institution if the program can be completed within 24 months. For purposes of the HHF program, MHC defines a distressed county as one in which the county's unemployment rate is higher than the state's average unemployment rate was in June 2010. The U.S. Department of Treasury used Mississippi's June 2010 unemployment rate as justification for awarding the state HHF funds.

MHC has experience in the development and administration of foreclosure prevention activities through its management of a statewide National Foreclosure Mitigation Counseling Program (NFMC) and its network of housing counseling providers.

With the award of its first HUD Housing Counseling grant in 1998, MHC began developing a strong network of housing counseling partners to assist borrowers and potential borrowers. Over the past twelve years, MHC's network of HUD- approved housing counseling agencies has provided assistance to thousands of Mississippians.

## **SECTION ONE**

It is anticipated that MHC's HHF Program, to be marketed as Home Saver Program will have a significant impact on addressing foreclosure problems faced by Mississippians struggling with loss of income due to unemployment and under-employment. MHC realizes that not every borrower facing difficulties making their monthly mortgage payments will qualify for assistance. Housing counseling agencies will meet borrowers prior to MHC involvement to provide intake and application processing. These counselors will be able to look at individual borrowers' circumstances and determine their eligibility in the HHF Program based on the guidelines listed in this proposal. HHF funds received from the U.S. Department of Treasury will only be used to provide services supported by the Emergency Economic Stabilization Act of 2008 (EESA).

a. Overview of Program
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### **Program Details**

MHC will provide HHF monthly mortgage payment assistance over a longer period of time to borrowers who participate at their own expense in an educational program that leads to a certification or degree at one of the state's Community Colleges. This strategy has a more permanent solution to unemployment and underemployment by encouraging HHF beneficiaries to increase their skills and marketability for higher paying jobs which could decrease the number of foreclosures.

Most loss mitigation options available in the private sector only allow for a limited forbearance, typically four months, when a borrower becomes unemployed. After that point, the loan is sent to foreclosure. In our current economy, MHC is aware that four months is not enough time for a borrower to become re-employed at a salary that is sufficient to continue making monthly mortgage payments. Moreover, loss of income is the leading reason why borrowers are unable to qualify for a modification of their mortgage under the federal Home Affordable Modification Program (HAMP).

MHC plans to offer HHF assistance statewide. However, borrowers in distressed counties (those in which the unemployment rate is higher than the state's average unemployment rate was in June 2010) will be eligible to receive an additional six months of monthly mortgage payment assistance to find a job after completing an educational program that leads to a certification or degree at one of the state's Community Colleges.

MHC has determined that 79%, or 65 of the state's 82 counties will be classified as distressed for the HHF program. These 65 counties contain 52% of the state's population. The HHF program will be made available as assistance in the form of a 0%,

non recourse, subordinate loan, where 1/60th of the principal will be forgiven each month so long as the eligible borrowers continue to occupy the house as their primary residence and meet all terms and conditions of the loan.

MHC will engage in one HHF program that will pay 100% of an eligible borrower's monthly mortgage payment. The HHF program will provide monthly mortgage payments to cover the entire costs of an eligible borrower's first and/or second mortgage. The monthly mortgage payments will be used to cover principal, interest, fees, delinquent taxes or escrow shortage and borrowers insurance. The HHF program will also pay arrearages not to exceed six months.

MHC estimates the weighted average amount borrowers will receive is \$26,903. The actual amount will vary depending on location in a distressed or non-distressed county and whether the applicant takes advantage of the extended period allowed for completing job training or certification. The tables below show the assumptions used to determine how funds will be disbursed.

Assumptions	
Mortgage Amount	\$150,000
Monthly (1)	\$948
Mortgage Insurance	\$57
Property Taxes	\$131
Hazard Insurance	\$75
Housing Cost (PITI)	\$1,211
Up to 6 months arrears	\$7,266

	Months of Assistance	Participation Rate	Average Amount Per Grant	Households Assisted (3)	Total Awarded
Basic (2)	12	100%	\$21,798	1,290	\$28,119,145
Education Option	12	30%	\$14,532	390	\$4,432,339
Post Education Job Search Distressed Counties (4)	6	5%	\$7,266	67	\$114,849
Totals	30		\$43,596	1,290	\$32,666,333

Weighted Average			
Households	Share	\$/HH	Weighted Total
870	67%	\$21,798	\$14,703.34

353	27%	\$36,330	\$9,941.37
67	5%	\$43,596	\$2,259.26
1,290			\$26,903.97
<b>Notes:</b>			
(1) Mortgage Assumptions			
Average Mortgage Rate		6.5%	
Term		360	
(2) Includes 6 months arrears			

(3) Households in the "Education Option" and "Post Education Job Search" do not represent additional households served. They represent an estimate of the number of households that have received service under the "Basic" category and are receiving additional mortgage assistance while pursuing training to improve their job skills and if in a distressed county, while looking for a job after completing schooling.		
(4) Assumes clients in Distressed Counties will use program in proportion to their share of population (52%) and 33% of those choosing the education operation will need an additional 6 months to find a job		
	Utilization Share	Education Utilization
Distressed Counties	52%	35%
Non Distressed	48%	25%

Time limits for monthly mortgage payment assistance through the HHF program are as follows:

Non-Distressed Counties

1. Up to 6 months of arrearage.
2. Up to 12 months of monthly mortgage payments.
3. Up to 12 additional months for participation in an educational program that leads to a certification or degree at one of the state's Community Colleges (borrowers must decide during HHF enrollment to participate in an educational program to be eligible for the additional 12 months of monthly mortgage payment assistance).

Distressed Counties

1. Up to 6 months of arrearage.
2. Up to 12 months of monthly mortgage payments.
3. Up to 12 additional months for participation in an educational program that leads to a certification or degree at one of the state's Community Colleges (borrowers must decide during HHF enrollment to participate in an educational program to be eligible for the additional 12 months of monthly mortgage payment assistance).
4. Up to 6 months extended job search after completion of an educational program that leads to a certification or degree at one of the state's Community Colleges.

MHC's HHF program assistance to eligible borrowers in distressed and non-distressed counties will continue until:

- 1) The program term ends;
- 2) The eligible borrower becomes able to resume payments;
- 3) The eligible borrower sells or abandons the property;
- 4) An unanticipated event occurs deeming the eligible borrower or the property ineligible to receive assistance, i.e., death, fire, etc.

Borrower eligibility requirements:

1. The borrower has a monthly mortgage payment that they cannot afford due to unemployment or underemployment that can be documented.
2. The borrower has a monthly mortgage payment greater than 31 percent of gross monthly income.
3. Property must be located in the State of Mississippi.
4. Borrower must be a resident of the State of Mississippi.
5. Borrower has a mortgage against the property.
6. Borrower is delinquent on their mortgage or faces imminent risk of default.
7. Property is occupied as borrower's primary residence.
8. The household income must not exceed 120% of the Area or State Median Family Income, adjusted for family size, whichever is greater.
9. Liquid asset limitation up to three months of mortgage payments (excluding retirement funds).
10. Mortgage was closed prior to January 1, 2009.
11. Unpaid principal balance of first and second mortgage no greater than the FHA limit of \$271,000 for a one-unit dwelling.
12. Total loan to value cannot exceed 125% of the home's original appraisal.

If the borrower meets the minimum eligibility criteria, the housing counseling agency will ask the borrower to sign an affidavit about their current income, assets and expenses, and document unemployment or underemployment circumstances which limits their ability to make monthly mortgage payments. The housing counseling agency will be required to take into account the circumstances that brought the borrower into their current situation and they will be required to document that the borrower's current situation is due to an event meeting the program guidelines.

Housing counseling agencies will work with borrowers to screen for eligibility and develop an individualized HHF Action Plan to address the eligible borrower's particular needs. The Action Plan will describe the eligible borrowers' intentions to participate or not participate in an educational program that leads to a certification or degree at one of the state's Community Colleges or 4-year institution at their own expense. MHC will review and approve eligibility applications and Borrower Action Plans.

If the housing counseling agency determines that the borrower is eligible to participate in the HHF program, the counselor will be required to assemble the following documents before a borrower can receive HHF funds:

1. Property Deed;
2. Real Estate Tax information (if not escrowed);
3. Borrower's Letter of Circumstance;

4. Verification of Circumstances;
5. Client Information Release Authorization Form;
6. Mortgage Verification;
7. Employment / Unemployment Verification;
8. Deposit/Loan Verification;
9. Income Verification (paystubs, checks, income statements);
10. Federal Income Tax Returns (last 3 years);
11. Monthly Statements of Charge Accounts and Loans;
12. Foreclosure Notice (if filed);
13. Borrower's Insurance policy,
14. Bankruptcy Information (if applicable);
15. Credit Report;
16. Other Documentation (title check, i.e., liens, assessments, 2<sup>nd</sup> & 3<sup>rd</sup> mortgages);  
and
17. Counselor recommendation and supporting documentation (credit action plan, budget, etc.) based on counseling sessions.

The HHF loan to the borrower will be evidenced by a Note and a Mortgage. When the application is finalized, the housing counseling agency will forward the documents to MHC which will use MHC's General Counsel to close the loan to the borrower.

Each quarter, the housing counseling agency must determine that the borrower still needs the monthly mortgage intervention funds. The housing counseling agency must verify that the borrower is still unemployed or underemployed by checking unemployment records or other appropriate documentation. Also, the housing counseling agency must verify the steps the borrower has taken to obtain employment or increase their household income.

### **Goals of the Program**

MHC's program goals are to:

- Implement a statewide HHF program that will focus on unemployed and underemployed borrowers who are at risk of mortgage loan default or foreclosure through an uncontrollable decrease in income.
- Utilize MHC's strong partnership with the housing counseling network and other stakeholders to provide an effective, accountable, and transparent program using HHF funds to promote and support the program.
- Encourage borrowers to strengthen their long term financial stability by providing extended benefits to those that enroll in an educational program that leads to a certification or degree.
- Provide eligible borrowers the time needed to find gainful employment without the worry of foreclosure.
- Assist borrowers who are delinquent on their mortgage to bring it current.

MHC estimates that the HHF Program will assist a statewide total of approximately 1,300 unemployed and underemployed borrowers over the duration of the program. MHC anticipates that 52% of the HHF funds or roughly \$16.9 million will be used to support eligible borrowers in distressed counties and 48% of the HHF funds or roughly \$15.7 million will be used to support eligible borrowers in non-distressed counties. These allocations assume an average loan amount of \$26,903 per HHF borrower assisted.

### **Unemployment in the State**

High unemployment, declining real estate values, and the re-setting of adjustable rate mortgages have all contributed to the foreclosure crisis in our state. The loss of jobs has put many Mississippians at the brink of foreclosure. In June 2010, Mississippi's unemployment rate was 11.4%, compared to the national rate of 10.2%.

Mississippi is not immune to the state of the economy which has seen unemployment figures trending upward in Mississippi for four straight years. Unemployment rates have steadily increased from 6.3% in 2007 to 11.4% in 2010. Mississippi's unemployment rate has risen so sharply since 2009, that Mississippi is now tied for fifth nationally as experiencing the steepest percentage increase over the past year.

The state's high unemployment rate is not only tied to the current recession, but is also a result of Hurricane Katrina and Gulf Oil Spill whose impact is expected to lead to an increase in future foreclosures as a result of lost earnings. Many of the businesses that were lost after Hurricane Katrina have not reopened and many of the jobs did not return. Sixty months later, the Gulf oil spill is seen as having a similar effect on the exact same part of the State. Many of the Gulf Coast workers in the fishing industry lack the skills and education to transition easily into other jobs and will require support and re-training to make a shift.

### **Needs of the State**

Borrowers who have experienced an involuntary loss of income are at a high risk of foreclosure, particularly in an environment of declining home values. Borrowers who have experienced a temporary loss of income may benefit from short-term assistance to help bridge the gap until they have restored their income. The primary challenges faced in Mississippi are: (a) the high rate of mortgage foreclosures; and, (b) loss or reduction of income due to unemployment or underemployment.

Average earnings per job in Mississippi have lagged in recent years, actually falling slightly each year since 2004. Furthermore, the Mississippi average earnings per job of \$38,697 in 2008 were \$11,562 less than the national average of \$50,259. Between 2010 and 2014, per capita income is expected to rise only 0.6% per year. Within the next five years, it is estimated that one-third of all Mississippi households will be below 80% of the median family income.

Statewide, 21% of all households had annual incomes less than \$15,000, with another 14% having annual incomes from \$15,000 to \$24,999. All told, over 35% of all Mississippi households have annual incomes less than \$25,000. By way of comparison, just over 15% of households have incomes above \$75,000. The majority of households, 49%, have household incomes between \$25,000 and \$75,000.

The State's high delinquency and foreclosure rates can be directly attributed to the high number of subprime loans made to borrowers over the past five years. As these subprime loans adjust, the number of delinquencies and foreclosures in Mississippi can be expected to increase. The gap between the State and the nation's average earnings per job and per capita income has widened every year since 2004.

In addition, most unemployed borrowers either do not qualify for existing loss mitigation programs, or the assistance does not last long enough for them to find a new job. For instance, the new Home Affordable Unemployment Program, which became available July 1, 2010, will provide a maximum of six months of assistance to eligible borrowers and these borrowers cannot be more than three months behind in their mortgage payments at time of application.

Some Mississippi borrowers, however, are more than three months behind in their mortgage payments, and/or they will need more than three to six months to find gainful employment capable of providing them with an income that can cover their monthly mortgage payments. MHC's HHF programs will provide more extensive assistance to unemployed borrowers and others suffering a temporary financial hardship.

### **Length of Assistance**

MHC's HHF monthly mortgage payment program will provide assistance for a minimum of 12 months in both distressed and non-distressed counties. All HHF borrowers that enroll at their own expense in an educational program that leads to a certification or degree will be eligible for up to an additional 12 months for a total not to exceed 24 months in both distressed and non-distressed counties. Up to an additional 6 months will be made available to HHF borrowers only in distressed counties to provide an extended period of time to find employment.

Once the borrower resumes making monthly mortgage payments, the loan will be forgiven 1/60th at the end of month as long as the borrower remains current on their first mortgage and continues to live in the house as their principal residence. If the borrower sells the home during any part of the 60 month term, the remaining principal balance will be due to MHC and recycled back into the program. If there is not enough equity in the home to repay the entire amount due, MHC may forgive a portion or all of the remaining principal balance so as to not create additional hardships on the seller at closing.

HHF loan funds will be due and payable to MHC if the property is sold, refinanced or becomes no longer owner-occupied (unless otherwise prohibited under applicable federal



law). Loans will be repayable only from net proceeds to the borrower from a sale or refinance.

### **Amount and Cap on Assistance**

MHC will engage in one HHF program that will pay 100% of an eligible borrower's monthly mortgage payment. The monthly mortgage payments will be used to cover principal, interest, fees, delinquent taxes or escrow shortage and borrowers insurance. The program will also pay arrearages not to exceed six months. MHC's HHF program will provide monthly mortgage payments to cover the entire costs of an eligible borrower's first and/or second mortgage. MHC will not establish a monthly mortgage payment amount limit, but will limit the total amount of assistance a borrower can receive to HHF funds to \$22,000 if the applicant is getting 12 months of assistance, and up to \$36,000 if using the education option (up to \$44,000 if the applicant lives in a distressed county). Regardless of these dollar maximums, the actual award will be solely determined by the amount of the mortgage payment, including principal, interest, taxes, and insurance, arrearages due, and the period of time the applicant remains eligible for the assistance.

### **Timeline**

MHC plans to launch the HHF pilot program in Mississippi to eligible borrowers within 30 days after approval of the program from the U.S. Department of Treasury, and the full program within 120 days after approval. During the four week application review period by the U.S. Department Treasury (September – October, 2010), MHC plans to:

- Facilitate a meeting with housing counseling agencies, servicers, and other stake holders;
- Invite all housing counseling agencies to participate in the program;
- Meet with MHC's Trustee to describe program details of processing monthly mortgage payments for borrowers enrolled in the HHF program;
- Meet with MHC's General Counsel to describe program details to close and record subordinate mortgage loans on behalf of MHC;
- Develop program guidelines for use by housing counselors, Trustee, and General Counsel, including terms of assistance and repayment, procedures for deferring repayment in cases of continuing borrower hardship and procedures for forgiving debt in cases of severe negative equity;
- Develop a detailed marketing plan including a detailed plan for consumer outreach;
- Prepare a standard note and other required loan documents for borrowers receiving HHF funds;
- Contract for client management software for use by MHC and the housing counseling agencies, and;
- Develop a detailed plan for compliance monitoring.

Immediately following the U.S. Department of Treasury's approval of MHC's HHF program, MHC will:

- Begin preparing for the Pilot Program launch;
- Execute the HFA Participation Agreement with Treasury;
- Enter into contracts with the selected housing counseling agencies;
- Test and refine the eligibility module and make it available to counselors and other outreach partners;
- Complete and test the application and verification modules of the client management software;
- Train housing counselors on program guidelines, procedures and software; and
- Train lender/servicers on MHC's HHF programs and procedures.

In the first 30 days after MHC launches the HHF program, MHC plans to:

- Market the program to potential borrowers through contacts with lender's servicing departments, media presentations, and MHC's website;
- Refer borrowers to housing counseling agencies for screening and eligibility;
- Verify eligibility of participants and reserve HHF funds on behalf of the borrower based on need and the maximum amount allowed;
- Direct the Trustee to make payments to servicers. All disbursements will be at the direction of MHC who will give final approval on all borrower loan documents.
- Close loans with eligible borrowers.

In the first 180 days after MHC launches the HHF program, MHC plans to:

- Disburse 40% of the first year's allocated amount to eligible borrowers;
- Provide the required quarterly reports to the U.S. Department of Treasury, and;
- Complete compliance monitoring of each housing counseling agency.

MHC will continue to administer and recycle program funds that are returned to the HHF pool to assist additional borrowers through December 31, 2017. After December 31, 2017, any collected funds will be returned to the U.S. Department of Treasury.

### **Feedback from Stakeholders**

Stakeholders include borrowers, counselors, lenders, and any other interested parties. MHC will solicit feedback from stakeholders by facilitating a meeting during the time that the U.S. Department of Treasury is reviewing MHC's HHF proposal. Upon approval, MHC will solicit feedback daily by providing stakeholders with a list of staff contact email addresses and office phone numbers. Stakeholders will also be able to communicate with MHC via direct mail, webpage, and office visitation. MHC will conduct quarterly site visits with housing counseling agencies to get direct feedback related to successes and shortcomings of the program.

### **Obstacles to Implementation and Related Mitigation Plan**

The primary implementation obstacle will be the U.S. Department of Housing and Urban Development's (HUD) decision to require strict adherence to the SAFE Act (The Secure and Fair Enforcement for Mortgage Licensing) of 2008 and new 2010 RESPA guidelines which impose more stringent licensing requirements on loan originators. HUD's

determination will impact whether those employed by or under contract with MHC who provide mortgage foreclosure counseling services will be required to obtain additional licensing prior to entering into an agreement with MHC to participate in the HHF program. This could result in a delay while those individuals go through the licensing process. Also, a loss of capacity from housing counseling agencies could result if individuals choose not to become licensed to perform these services.

MHC has operated its foreclosure mitigation counseling under the National Foreclosure Mitigation Counseling (NFMC) program through a network of HUD Approved Counseling agencies in Mississippi. As provided above, the individual counselors have not heretofore been required to be licensed mortgage brokers or loan originators.

MHC will explore ways to strengthen and streamline the approval, closing, and payment documentation processes in order to process the increased volume efficiently. MHC plans to use housing counseling agencies to approve eligible borrowers, use MHC's General Counsel to close all loan documents, and use MHC's Trustee to make all loan payments to servicers. Housing counseling partners will need to know as soon as possible that they will need to increase their staff capacity for the expected increase in volume.

### **Leveraging Funds**

Over the past few years, MHC has met with the network of housing counseling agencies and communicated with lenders, servicers, and partners including the Federal Home Loan Bank of Atlanta to discuss the foreclosure crisis in Mississippi. MHC will not solicit matching funds for the HHF program due to the short time frame required to submit the HHF application.

This HHF program will benefit from MHC's 12+ years of experience working with housing counseling agencies statewide and will build upon MHC's experience managing the NFMC program for the State of Mississippi. The HHF program will complement the new Home Affordable Unemployment Program, available July 1, 2010, by providing assistance to unemployed borrowers who do not qualify for it (e.g., who are more than three months behind, need more than six months to find a job, or do not currently receive unemployment assistance).

## **b. Population Served and Allocation Methodology**

### **Estimated Number of Households that the Program will Target**

MHC's HHF Program will assist approximately 1,300 unemployed and underemployed borrowers who through no fault of their own are unable to make their monthly mortgage payments and are in danger of losing their home to a foreclosure.

To determine geographic targeting for the HHF Program, MHC evaluated unemployment rates across all 82 counties of the State as of June 2010. The unemployment rate in each county was compared to the statewide average of 11.4% as identified by the Mississippi

Department of Employment Security (Labor Market Data for July 2010, Labor Market Information Department, www.mdes.ms.gov). All of the counties with unemployment rates above the statewide average of 11.4% were classified as distressed counties. All of the counties with unemployment rates below the statewide average of 11.4% were classified as non-distressed counties. Borrowers in distressed counties will be eligible for up to 6 additional months of monthly mortgage assistance to find employment.

### **Geographic Breakdown or other Targeting, if Applicable**

To participate, eligible borrowers must have current household incomes that do not exceed 120% of the Area or State Median Family Income adjusted for family size, whichever is greater and their total combined outstanding mortgage amounts cannot exceed the FHA mortgage limit of \$271,000 000 for a one-unit dwelling.

### **Populations that are Excluded**

Borrowers are deemed ineligible if their household income exceeds 120% of the adjusted Area or State Median Family Income or their total combined outstanding mortgage amounts exceed the FHA mortgage limits of \$271,000 for a one-unit dwelling, not to exceed 125% loan-to-value of the home's original appraisal.

The following items will also be considered as circumstances that may deem the borrower ineligible for HHF assistance:

- Mortgaging of the property for commercial or business purposes, excluding home offices;
- Termination of employment by the borrower without a necessary cause;
- Termination of the borrower's employment by an employer for willful misconduct;
- The borrower had sufficient income to pay the mortgage but failed to do so;
- The borrower's financial hardship was a result of money mismanagement or an over extension of credit to the borrower.

## **c. Demonstration of Capacity to Implement**

### **Organizational Capacity**

MHC is a self-supporting public-purpose corporation created by the State of Mississippi to help provide affordable housing in the state. As the State Housing Finance Agency (SHFA), MHC offers low interest mortgages funded by Mortgage Revenue Bonds and Mortgage Credit Certificates that lower the homebuyer's federal tax liability and offers low-interest loans for down payment and closing costs.

MHC also operates financing programs supporting Habitat for Humanity affiliates, disabled persons, teachers, and persons purchasing REO properties for owner occupancy. MHC also operates the Housing Tax Credit program supporting development and rehabilitation of rental housing and provides financing for builders and developers to

develop property and construct single family housing and construct or rehabilitate rental housing. MHC's mission also includes helping build the capacity of nonprofit organizations to develop affordable housing. MHC's web site ([www.mshomecorp.com](http://www.mshomecorp.com)) fully describes the programs MHC offers.

As a recipient of federal and state grant funds, MHC has business processes in place to minimize the risk for fraud, waste, abuse, or mismanagement of funds. MHC has separation of duties between the program groups who underwrite and approve the loans and its finance group that accounts for and disburses the funds.

In addition to having a skilled and experienced staff, MHC has successfully worked with a network of housing counseling agencies for 12+ years. That experience provides the foundation for MHC's proposed HHF program. The housing counseling agencies will be important foreclosure prevention partners to provide intake and assessment services, submit the final application to MHC, help coordinate the loan closing and provide monitoring and follow-up services. This financial support has been critical to helping them sustain and expand their capacity to serve the dramatic increase in unemployed workers seeking foreclosure prevention assistance over the last two years.

MHC's extensive experience in administering state and federal housing programs has led to a long, proven track record of efficiently providing financing to a range of development organizations to provide different types of housing. MHC's work in partnership with a variety of entities to provide affordable housing includes:

- Providing mortgage financing along with down payment assistance through participating private lenders;
- Providing funding to homeownership counseling agencies to support their activities;
- Providing training to lenders and Realtors;
- Providing financing to developers to build and redevelop rental and borrower housing;
- Participating in, managing and servicing loans for the Financial Institutions Housing Opportunity Pool (FIHOP), created by MHC to provide long-term mortgage financing to rental properties developed under the federal Housing Tax Credit program.

MHC's HHF Team will include:

Dianne Bolen, Executive Director  
Charles Morris, Senior Vice President of Program Operations  
Ben Mokry, Executive Vice President of Research and Development  
Betty Temple, Vice President of Single Family Programs  
David Hancock, Vice President of Federal Reporting and Research  
Julie Brooks, Assistant Vice President of Housing Development and Homeownership  
Melissa West – Assistant Vice President of Single Family Programs  
Stephanie Minor, Grant Management Assistant

## **Compliance Infrastructure**

MHC will comply with all requirements of EESA and will accomplish compliance oversight, internal controls and fraud prevention through means identical to the methods currently used to accomplish tasks for all of the corporations other programs. Policies, procedures and internal controls required to implement the HHF program will be modeled on processes that are already in place and operating as intended.

MHC will require that each contracted service provider, including MHC's housing counseling agency partners, General Counsel and Trustee provide their compliance oversight, internal controls and fraud prevention guidelines for review by MHC. Additionally, MHC will use third party documentation from contracted service providers such as information from the Mississippi Department of Employment Security to ensure households receiving assistance comply with the requirements of the program and that complete, accurate and timely work consistent with the terms of each contract as stated in the scope of work is being completed.

## **Audit and Internal Controls**

MHC will carry out the following steps to ensure accountability, transparency, and compliance with HHF rules and regulations:

- Evaluate policies, procedures and internal controls for compliance with program requirements;
- Test processes for controls being in place and operating before program start-up and during its operation;
- Operate programs in compliance with applicable U.S. Office of Management and Budget (OMB) Circulars A-87, A-102, A-133 and Addendum #1 to the Compliance Supplement;
- Determine if any sub-grantee status for an entity exists within the program and plan internal control features for its processes; and
- Establish the financial reporting for HHF activities within the financial reporting system.

## **Fraud Risk Mitigation**

MHC's Accounting Department will carry out the following steps for MHC:

- Monitor MHC's financial transactions to detect weaknesses that could result in fraud, waste, abuse or loss of funds;
- Recommend process improvements and any necessary compensating controls;
- Determine key control points have been assigned to specific staff members who are accountable and responsible to a senior manager; and
- Evaluate ethics requirements and investigate complaints of alleged fraud, abuse and waste in conjunction with MHC's legal Counsel.

## **Reporting Protocols**

MHC will track costs associated with HHF in a manner consistent with its existing practices for tracking administrative costs for other federally funded programs. These processes are consistent with the cost principles outlined in OMB Circular A-87. MHC will comply fully with tracking and reporting requirements provided by the U.S. Department of Treasury prior to an award. Additionally, program participants will be expected to provide authorizations to release information allowing MHC to track outcomes on a file by file basis. Participating lenders/servicers will be required to provide ongoing reporting on assisted borrowers' payment histories during receipt of assistance.

MHC maintains compliance with the requirements described in the OMB Circular A-133 that apply to its major federal programs. In this respect, MHC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs.

MHC already receives different data points for reporting under the NFMC program including demographic information, mortgage information including lender: monthly PITI and additional lien information. For participants in the HHF program, MHC will capture data to include term and amount of assistance, number of borrowers that avoided foreclosure, number of borrowers that resumed their monthly mortgage payments, types of counseling received and any other pertinent data to help assess program and participant success.

## **Systems Infrastructure and Necessary Funding**

MHC will use a secure, web-based client management system to provide client level information in real time. MHC is considering the use of several online systems to determine applicant eligibility and to use as a tracking mechanism for available funds. The system MHC chooses will also facilitate borrower intakes, referrals and submissions to servicers by counseling agencies. MHC will seek reimbursement for the software purchase and on-going costs during the life of the HHF program upon approval of the HHF application.

## **Implementation Mechanisms**

MHC will provide training to housing counselors and internal staff regarding policies and procedures to be followed. A package of material will be available for distribution during these trainings. MHC will also provide outreach to the general public prior to and during implementation to ensure that borrowers receive accurate information and do not fall victim to foreclosure rescue scams.

## **Metrics Regarding Efficiency**

Over the past two years, MHC has administered funds under the NFMC Program and the Neighborhood Stabilization Program (NSP). MHC first received funding under the

NFMC Program in 2008 and has been awarded over \$319,994 to date. In that time, MHC has served 435 counseling units and provided positive outcomes in 85% of the cases. MHC currently administers the program with 15 sub-grantees. MHC's first award of housing counseling funds was in 1998 and since that time MHC has funded counseling services to over 18,000 households and developed a strong network of HUD-approved counseling agencies. Additionally, MHC was awarded \$16 million in NSP funds to help individuals purchase foreclosed homes as their primary residence. In the eleven months of the program, MHC committed \$15.9 million to 513 applicants, with over 370 having closed on their mortgages. MHC and its partners, including housing counseling agencies have efficiently handled over 30% month over month growth in volume in this program.

#### d. Staffing and Business Partners

##### **Staffing Plan for the Program**

To implement the HHF program, MHC will use a combination of existing employees, outside contractors, and external partners. MHC has an experienced staff and a history of successfully implementing programs in collaboration with other Mississippi agencies and external partners. The staffing plans for our programs are as follows:

- The Assistant Vice President of Single Family Programs will allocate 20 percent of her time to this project and serve to oversee all aspects of the HHF Program. Two of the key roles of this position will be to: 1) serve as liaison with the proposed contract service providers, and; 2) approve all administrative rules and policies as they pertain to the program administration.
- The Assistant Vice President of Housing Development and Homebuyer will oversee the day-to-day operations of the administration of the HHF. The Assistant Vice President of Housing Development and Homebuyer will allocate 30 percent of her time to this project. In addition, she will be responsible for working with the partnership organizations to insure that all functions of the program are working efficiently and effectively.
- The Assistant Grant Manager will be responsible for managing the processes and policies as they relate to the housing counseling aspect of the program in order to provide quality service to constituents. She will also monitor changes to federal and state programs as they relate to borrowers enrolled in the HHF program in order to set training guidelines. The Assistant Grant Manager will allocate 20 percent of her time to this project.
- The Research and Marketing Specialist will allocate 20 percent of her time to the HHF program and she will be responsible for collecting reports from both in-house and partner housing counselors and verification staff. This position will involve training on systems and insuring quality control. She will assemble the information in a format accessible for submission to the U.S. Treasury Department.
- The Homeownership Education Officer will be in the field educating housing counseling agencies on the HHF program along with other changes to ensure consistency in the delivery of services to constituents. While in the field, she will



- The Vice President of Federal Reporting and Research Administrative Assistant will be responsible for submitting quarterly reports to the U.S. Department of Treasury, ensuring that all federal rules are followed throughout the administration of the program. He will allocate 10 percent of his time to this project.

## **Use of Outside Partnership Organizations**

MHC intends to use three partners to implement the HHF Program:

### 1) Housing Counseling Agencies

MHC will select HUD Approved Housing Counseling agencies, many of which are also certified in Foreclosure Prevention, that have demonstrated experience in delivering housing counseling and foreclosure prevention activities. These agencies will have the capacity to add the HHF Program to their current delivery system, a plan to reach out to the borrowers in their local community, and the willingness to commit to the HHF Program for a minimum of five years.

The HHF Program will rely on these partners to handle intake of borrowers, assemble documentation, prepare an HHF Action Plan for each borrower and submit recommendations to MHC for verification. Compensation will be up to \$1,000 per household for all HHF services including but not limited to:

- Program eligibility screening and determination if borrower meets program requirements
- Client intake
- Budgeting
- Assist client with Loss Mitigation Options
- Monthly case management
- Completion of the Action Plan, including action under the education options
- Reporting client outcomes during the program

MHC will provide training to the housing counseling agencies that participate in this program. The first round of training will encompass the specific details and program metrics that the housing counseling agencies will need to consider when evaluating each borrower. MHC will also provide training on the reporting requirements and ongoing case management requirements of the program. After this immediate training need is met, MHC intends to supply ongoing guidance related to program requirements and changes.

MHC has two full-time staff certified by the nationally-recognized NeighborWorks® organization to provide training to housing counseling agencies. Some of the previous training included topics such as “Using the Decision Tree as a Counseling Intake Tool,” “The Role of Counselors in Foreclosure Counseling” and “Update to Making Home Affordable.”

MHC has provided training and technical assistance to non-profit organizations, housing counseling agencies and other community based organizations on all aspects of federal and state housing programs for nearly two decades. In the past, the array of workshops has included topics such as homebuyer education, understanding the income qualification process, program administration, acquiring foreclosure affected properties for affordable housing, preserving existing affordable units and foreclosure mitigation. For this initiative, MHC will develop a set of workshops targeted directly at providing training and technical assistance to providers of services on topics pertinent to the HHF Program.

## 2) MHC's General Counsel

This partner will facilitate the borrower's agreement to the loan documents and those necessary to secure the loan against the borrower's property. The HHF Program will rely heavily on the work of this partner to complete all the steps required to legally bind the borrower to carrying out his or her obligations under the HHF Program. MHC will institute a fee-for-service structure for participation from MHC's General Counsel in this program. MHC has established a fee of \$250 per HHF borrower to be appropriate for this function.

## 3) MHC's Trustee

This partner will facilitate the borrower mortgage payments to each lender on a monthly basis. The HHF Program will rely heavily on the work of this partner to provide monthly mortgage payments to servicers for each borrower in the HHF Program. MHC will institute a fee-for-service structure for participation from MHC's Trustee in this program. MHC is budgeting up to \$35 per borrower per month as the tentative corresponding fee to be appropriate for this function.

## **Qualification as an Eligible Entity**

MHC was created by State Legislation separate and apart from the State. MHC has a nine member Board of Directors appointed by the Governor and the Lieutenant Governor. MHC receives no funding from the State of Mississippi. MHC's funds are held in accounts that are not a part of the State's and the State has no access to these funds. In accordance with the HHF Guidelines published by the U.S. Department of Treasury, each recipient of funding from the HHF must qualify as an Eligible Entity. This is a financial institution, as that term is defined in the Emergency Economic Stabilization Act (EESA). MHC is an Eligible Entity for purposes of the Hardest Hit Fund initiative. MHC was established by the State of Mississippi, is a body politic and corporate, and has the power to 1) receive funds from Treasury, 2) enter into contracts, and 3) operate independently of any principal state department, as detailed in the Mississippi Home Corporation Act (Mississippi Code 43-33-701 et seq).

## e. Administrative Expenses

### **Estimate of Administrative Expenses**

MHC anticipates using approximately 12.14% of the \$38 million award for administrative related expenses for the Eligible Entity and for contracted services. MHC anticipates drawing down the \$38 million incrementally over three years.

Payments to HUD Approved Housing Counseling agencies will support intake, preparation of Borrower Action Plans, collecting documentation to determine eligibility for HHF assistance and monitoring compliance of clients with program requirements,, and may include other responsibilities as determined by MHC. Counseling agencies will be compensated up to \$1,000 per household for these services. Training for counselors will be provided by MHC and is included in the budget. MHC's General Counsel will receive \$250 for each loan closing and MHC's Trustee will be compensated \$35 per borrower per month for each mortgage that they service. In addition, MHC will include funds in the budget for auditors and compliance monitoring expenses.

HHF funds used to pay MHC's marketing outreach efforts will cover the costs of conducting events, direct mailing and print materials. These will be distributed by MHC and partner organizations to encourage borrowers to seek foreclosure prevention help from an HHF partner to help combat mortgage rescue scammers, who continue to target borrowers and that might use the infusion of HHF funds in the state as an opportunity to misdirect borrowers seeking assistance.

This program is structured so that the mortgage servicers receive a full mortgage payment from MHC drawn from HHF funds. A second source of recycled funds will be repayments filed on behalf of the Eligible Entity. Because repayments would only occur if a borrower sold or refinanced a home before the loan was entirely forgiven and if there were sufficient net proceeds very few repayments are expected to occur.

## f. Overview of Risk Management / Fraud Prevention

### **Plan for Minimizing Program and Fraud Risk**

MHC will comply with the requirements of the Emergency Economic Stabilization Act of 2008 (EESA) including but not limited to, allowing full compliance and 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 as to the application of any EESA funds. All books, communications, and records regarding the use of EESA funds by MHC will be made available for review by any of these entities upon request.

## **Monitoring and Auditing**

MHC will review each applicant file submitted by housing counseling agencies. These reviews will include, but will not be limited to:

- Review of client files to determine that sufficient documentation is included;
- Verification of borrower eligibility, including verification of income or lack thereof;
- Verification of home purchase price limits;
- Verification that individual mortgages do not exceed the maximum allowable amount for the county;
- Verification that mortgage expenditures do not exceed the stated required payments;
- Verification of whether the applicant was ever able to afford the home in question;
  - Recalculation of current loan-to-value;
  - Number of months in arrears; and
  - Determination that award limits were not exceeded.

MHC will routinely determine whether contracted servicers perform complete, accurate and timely work consistent with the terms of each contract, including the stated scope of work. The scope and frequency of the reviews will be risk-based, as determined from time to time by MHC. During each review, inconsistencies, deficiencies and discrepancies identified will be reported to MHC's senior management.

Reviews of contracted service providers will include, but will not be limited to:

- Review of written procedures regarding program processes, including intake and screening;
- Review of service providers' record keeping and support documentation;
- Periodic reviews of contracted service providers to ensure compliance with all contract terms and Program requirements, and;
- Reviews of third party documentation to assist in detecting fraud, abuse, waste, irregularities and areas of risk.

## **Risk Management and Fraud Prevention Strategies**

MHC's accounting processes include: cash management, receivables, servicing, accounts payable, operations, and grants management. MHC reviews these processes annually to make sure proper policies, procedures and segregation of duties are in place to minimize the possibility of fraud, illegal acts and violation of the provisions of contracts, and to ensure compliance with grant agreements.

An audit is performed after each fiscal year (June 30th) by MHC's independent audit firm. This audit encompasses a financial and compliance examination of MHC's basic financial statements, supplementary information and compliance reports in accordance with the laws and/or regulations of the State of Mississippi, which include requirements for the minimum scope of the audit. The financial and compliance audit covers federal,

state, and local funding sources in accordance with generally accepted auditing standards; Government Auditing Standards; the Single Audit Act of 1984; the Single Audit Act Amendments of 1996; the provisions of OMB Circular A-133; Audits of State, Local Governments, and Non-Profit Organizations; the State Single Audit Implementation Act; and applicable laws and regulations.

MHC is in the process of obtaining an indirect cost rate to compile a certified Cost Allocation Plan at the end of each fiscal year in accordance with OMB Circular A-87, which establishes the principles and standards for determining both direct and indirect costs for federal cost-based awards. However the budget submitted with this HHF proposal does not apply an indirect cost rate. MHC's staff submits weekly time sheets documenting their time for each federal program. The timesheet data as well as other factors are used to allocate the costs to each federal program. MHC tracks all eligible operating expenses directly associated with each federal grant.

MHC's accounting system tracks programs by source of funds, allocations, commitments, awards and disbursements of funds by cycle and operates like a budget system, comparing allocated to awarded to actual, which prevents disbursements in excess of an award. The system allows MHC flexibility in the tracking and reporting of grants to meet the needs of federal agencies, the Mississippi Department of Finance, Independent Auditors, sub-recipients and vendors. MHC will use this system to provide detail or summary information to the U.S. Department of Treasury on the HHF Program.

MHC will review each loan before closing. It will monitor the counseling agencies and will receive electronic updates from them on the borrowers who have been assisted.

These are the activities MHC will perform for each loan to prevent fraud:

- 1) Ensure closing of each loan by MHC's General Counsel;
- 2) Verification of the recipient's identity at closing;
- 3) Ensure loan servicing is complete by MHC's Trustee;
- 4) Quality Control measures are undertaken to verify and document items which include, but are not limited to:
  - a. Borrower Eligibility Criteria
  - b. Property/Loan Criteria
  - c. Program Exclusions
  - d. Program Duration/Extension

## REPORTING

### **Develop and Maintain Operational and Performance Metrics**

Progress will be measured by the total number of households at risk of foreclosure able to remain in their homes. MHC will collect the following metrics:

- Number of borrowers assisted;

- Number of borrowers assisted who were one or more months delinquent and in imminent danger of a foreclosure;
- Number of borrowers assisted who were six or more months unemployed;
- Number of borrowers who completed a job search or job training program and secured employment within two months of their assistance ending;
- Number of borrowers who resumed mortgage payments and successfully remained in their home for one to five years after assistance ended;
- Number of borrowers assisted in distressed counties for all the above metrics to measure the effectiveness of the targeting effort;
- Number of borrowers assisted per quarter, and;
- Number of borrowers assisted by each housing counseling agency.

MHC will maintain a separate budget for the HHF Program, and all Treasury funds provided to implement this plan will be used solely to fund the HHF Program and related expenses. MHC adheres to OMB A-133 audit requirements and OMB Circular A-87 cost principles for governmental entities.

MHC will provide the U.S. Department of Treasury all required reports including: 1) demographic information on all borrowers; 2) status and final outcomes of borrowers served; 3) quarterly progress reports; 4) detailed expenditure reports, and; 5) other ad hoc reports as requested.

### **Financial Reporting System**

MHC's financial accounting and servicing systems provide the ability to record and track all financial data, borrower/household data, and other organizational entity data required of the HHF Programs. A separate budget will be maintained for the HHF Program and every transaction against these funds will be tracked within MHC's accounting software. This system is used to track all of MHC's appropriations from inception to disbursement.

In addition, MHC plans to use a web-based portal to facilitate the promotion and collaboration among all key stakeholders including housing counseling agencies, HHF borrowers, and MHC's General Counsel and Trustee. Data and documentation from the web-based portal will be used on a periodic basis to support program management and borrower/case review, underwriting, and loan closings.

### **Track Borrowers helped through the Program**

MHC proposes the following method to track the success of borrowers assisted through the HHF program and reported quarterly or as requested by Treasury:

- Expected vs. actual figures by program for funds disbursed and borrowers 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 who resumed mortgage payments and successfully remained in their home one to five years after assistance ended;
- Number of borrowers who received mortgage modifications from their mortgagee or servicer;
- Number of borrowers who completed certification or degree to increase job skills through the education option;
- Hourly rate or annual salary of individuals employed after completing education option compared with last employment before participating in HHF program;
- Number assisted within distressed counties; and,
- Number of foreclosures averted.

<b>COMPLIANCE AND MONITORING</b>
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**Design a Program**

MHC will perform periodic reviews of all the contracted service providers including the housing counseling agencies to determine whether work performed is in accordance with the terms of each contract, as stated in the scope of work. Any findings will be followed up on by the MHC. Any serious findings or concerns or complaints will be handled by MHC staff leading up to termination of a contract by the Executive Director.

**Establish Monitoring Mechanisms**

MHC will evaluate policies, procedures and internal controls for compliance with program requirements. Data elements will include but will not be limited to: loan file/client files that should include income verified with pay stubs;

- income statements;
- credit reports;
- borrowers’ insurance policies; and,
- unemployment compensation documentation.

MHC will use a risk based methodology to select housing counseling agencies to review. MHC will use a combination of random and judgmental sampling in selecting the borrower files to review. MHC will perform a minimum of one review for each housing counseling agency that served at least one borrower during the year. Subsequent review frequencies will be risk-based and determined partly by the number of borrowers served and the number and severity of any previous review findings.

**Implement a System of Internal Controls which Minimize the Risk of Fraud**

To minimize the risk of fraud, MHC will review all expenses submitted for reimbursement, and any repayments, if required. Furthermore, MHC’s financial records related to the program will be audited by its auditors each year. MHC will also review applicant files submitted by each housing counseling agency and documentation

submitted by each contracted service provider requesting reimbursement for sufficiency to support the funds being requested.

### **Mitigate Conflicts of Interest**

MHC maintains a conflict of interest policy for its staff. MHC will notify housing counseling agencies as to potential conflicts of interests involving the HHF program and the methods for mitigating those conflicts. MHC will monitor and evaluate the housing counseling agencies through periodic reviews of their client lists and their processes and procedures. If conflicts of interest are discovered, MHC will take appropriate action including and up to termination of a contract with a housing counseling agency.

Potential conflicts of interests include but are not limited to:

- Family relationship to borrower or employee;
- Steering clients toward programs/products that are not beneficial to the client.

Mitigating controls for housing counseling agencies include but are not limited to:

1. employees are limited to an agreed upon client caseload;
2. employees sign a statement that clients will not be referred to a competitor or other program/product if it is not in the client's best interest;
3. certifications that its employees will not be allowed to serve/approve any relatives to receive funds under this program;
4. employees will be provided with appropriate checklists and training as necessary.

Risks include but are not limited to:

- Poorly designed or implemented process flows;
- Employee(s) lacking necessary knowledge/skills;
- Lack of capacity; and,
- Duties not properly segregated.

### **Maximize Operational Efficiency and Effectiveness**

To maximize operational efficiency and effectiveness, MHC will conduct a readiness assessment by way of a pilot program. MHC proposes to implement the HHF program initially through the network of housing counseling agencies involved in the NFMC program. This network has a pipeline of potential clients eligible to participate in the HHF Program immediately. MHC expects its network of NFMC housing counseling agencies will also provide a good mix of eligible borrowers from distressed and non-distressed counties.

MHC will provide training to the identified counseling agencies on the mechanics of the program including client intake, eligibility screening, determination requirements and reporting requirements of the program. It is expected that this process will start shortly after the contracts are signed. The pilot program is anticipated to be functional around November 1, 2010.



MHC anticipates that the pilot program will last for approximately 60 to 90 days prior to the statewide implementation of the program. The pilot program will also serve as a good barometer for the need for assistance, interest in the program, and disbursement rate of the funds. MHC will be able to better predict the capacity needed by contracted housing counseling agencies when the program is launched statewide and assess areas where additional capacity may be needed based on results achieved in the pilot program. MHC anticipates that the housing counseling agency contracts will be finalized by December 31, 2010.

Since MHC will use its General Counsel and Trustee to close and service loans, we expect no difficulties in finalizing loan closing and loan servicing processes before the pilot phase ends.