

# The Arizona Foreclosure Prevention Funding Corporation

## Help for the Hardest Hit Housing Markets ("HFA Hardest-Hit Fund")

### *Proposal for use of HFA Hardest-Hit Fund*

#### SECTION ONE

In order for the state of Arizona to receive \$125.1 million, its allocated portion of the Help for the Hardest Hit Housing Markets ("HFA Hardest-Hit Fund") through the United States Department of Treasury (Treasury), the Arizona Foreclosure Prevention Funding Corporation (the Corporation) has been established under state law. The state of Arizona Department of Housing (ADOH), on behalf of the Corporation, is submitting this proposal to provide a Program that will meet the requirements of the HFA Hardest-Hit Fund, with the primary goal of preventing foreclosures.

**A. PROPOSED PROGRAM.** The **Save My Home AZ Program** (also referred to as Save My Home AZ or the Program) has been created in order to help homeowners avoid foreclosure on their primary residence in the state of Arizona. This will be accomplished by identifying working families who are facing foreclosure and could afford a mortgage that reflects at least 100 percent of the property's current value or more. Benefactors of the Program must meet certain requirements including eligible hardship, property type, loan balance, income level and other conditions.

The Program includes three components:

- **Permanent Modifications.** Applicants must demonstrate personal responsibility. Their inability to pay their mortgage must be the result of an approved hardship. Modification efforts could include a principal reduction, a rate decrease, and/or a term extension to achieve a monthly payment that does not exceed 31 percent of the homeowner's monthly income. For a principal reduction, the principal balance must exceed 120 percent of present market value of the home. The homeowner could qualify for a maximum contribution of \$50,000, matched by the lender and forgiven over a period of time.
- **Second Mortgage Settlements.** Assistance to remove second mortgages when necessary to modify the terms of the primary loan will be provided. The value of many of the loans is zero. However, because of the combined loan to value (CLTV), these mortgages create an increased risk of re-default. As a result, they reduce the primary lender/servicer's willingness to modify the primary mortgage. Additionally, and equally as important, they contribute to a higher re-default rate for consumers that do receive a first mortgage loan modification.

- **Temporary Modifications/Mortgage Payment Relief.** Assistance to pre-pay a portion of mortgage loan payments for a pre-determined amount of time (e.g., up to 24 months) to give underemployed homeowners relief while they are actively seeking to become more meaningfully employed. In some instances, this will be all the aid that is needed. In other cases, households may be eligible for a permanent modification if they become adequately employed while receiving temporary relief assistance.

The anticipated breakdown in financing uses between these three areas is outlined below:

Program Component	Number of Households	Cost or average per Transaction	Total	Percentage of Program Funding
Permanent Modification Assistance	1,848	\$ 50,000.00	\$ 92,400,000	83
Second Mortgage Settlements	1,500	\$ 5,000.00	\$ 7,500,000	7
	<u>3,348</u>			
Temporary Modifications/Mortgage Payment Relief	1,000	\$ 12,000.00	\$ 12,000,000	11
<b>TOTALS</b>	<u>4,348</u>		<u>\$ 111,900,000</u>	<u>100</u>

In designing the Program for the state of Arizona, the Arizona Department of Housing (ADOH) developed the following guiding principles to ensure that it assists homeowners who have demonstrated personal responsibility in their home purchase choices heretofore. It is the Program’s intent to assist those who, through no fault of their own, are facing the potential loss of their home due to the current and unprecedented economic conditions.

- **Foreclosures must be imminent.** Resources would only be utilized for households who have exhausted all options in remaining current on their mortgage payments. For instance, households who continue to pay other debt such as credit card debt, while neglecting to pay their primary mortgage may not be eligible for assistance.
- **Modest primary residences.** Resources would only be utilized for primary residences and to assist households with incomes at or below 120 percent of the area median income. Additionally, households would have to demonstrate that their incomes had been reduced since the home was last financed.
- **Personal responsibility.** Resources would not be used to assist households who face foreclosure due to “self-inflicted” wounds (e.g., refinancing to take out equity, mortgages based on undocumented income, risky loan programs, etc.)
- **Statewide availability.** Resources would be made available statewide. However, geographic set-asides would be devised to assure distribution commensurate with the foreclosure rates.
- **Hardships.** Applicants must demonstrate an approvable hardship. Those include: reduced income due to underemployment, medical condition, divorce or death.

As described above, 89 percent of the overall award, or \$111,900,000, is being budgeted for direct program assistance. The remaining 11 percent of the award is budgeted for various support, delivery and administrative costs of the program, which are outlined in detail in Section 2, Paragraph E.

Two other key issues surrounding the Program design are:

- For Permanent Modifications including principal reductions, **lenders must participate financially** at an amount equal to or greater than the state's financial assistance.
- **Loans** to homeowners will be soft-second loans, intended to be forgiven over time, to incentivize people to remain in their homes and to assure no windfalls to homeowners as appreciation values return. Loans would be fashioned as silent-second loans, due on sale if adequate equity exists. Should the assisted homeowner continue to occupy the property as their primary residence their loan is forgiven at the end of the 10 year term. Any loan proceeds that are returned to the Program would be reutilized to assist additional homeowners.

**B. STRATEGY FOR ARIZONA'S MARKET.** Arizona's foreclosure rate is currently second in the nation. While many early foreclosures were a result of over-speculation of single-family homes by investors and resets on adjustable rate mortgages, many Arizona households now face foreclosures due to job loss or reduced incomes as a result of an ailing economy. Additionally, because many homeowners owe far more than the current value of their home, they are choosing foreclosure rather than remain in their home.

Arizona's strategy addresses both of these two major issues which are contributing to the current level of foreclosures. Given the number of households significantly underwater with their mortgages and an unemployment rate hovering at 10 percent, \$125.1 million is not nearly enough money to stabilize the Arizona housing market. At best, these funds will assist just over 4,000 households or over 11,000 individuals to remain in their homes. To put this in perspective, in March 2010, 5,556 homes were foreclosed on in the Phoenix area alone. Arizona is expecting as many as 50,000 foreclosures in 2010.

Our greatest hope is that this pilot program will produce a more open dialogue between the housing advocacy community, the lending community, and the U.S. Department of Treasury that will lead to further opportunities for principal reduction programs until such time as significant negative equity is no longer a leading cause for Arizona's high foreclosure rate. Without significant principal write downs by the lending community, the foreclosure issue will continue to destabilize Arizona's housing market for the foreseeable future.

**C. ONE PROGRAM.** While the Arizona Program includes several levels of participation, we are considering it all one program under the umbrella of Save My Home AZ. Aid for all levels of participation will be made through one consolidated application process.

## SECTION TWO

### A. OVERVIEW OF PROGRAM

Under the Emergency Economic Stabilization Act of 2008 and the HFA Hardest-Hit Guidance, the funds may be used to facilitate “mortgage modifications, principal forbearance, short sale, mortgage payment relief, and second lien reductions,” to assist consumers at risk of foreclosure.

The Save My Home AZ Program (also referred to as Save My Home AZ or the Program) has been created in order to help homeowners avoid foreclosure on their primary residence in the state of Arizona. This will be accomplished by identifying working families who are facing foreclosure and could afford a mortgage that reflects at least 100 percent of the property’s current value or more. Benefactors of this program must meet certain requirements including eligible hardship, property type, loan balance, income level and other conditions. Every assisted household must exhibit an ability to return to self sufficiency within a reasonable time period.

The Program will be administered by the Arizona Department of Housing (ADOH), with key partnerships with HUD certified Counseling agencies who will provide much of the face-to-face interaction with clients.

#### **Permanent Modification Component**

Save My Home AZ will provide up-front, soft second loans to eligible consumers for up to \$50,000 depending upon individual circumstances. Notes on the soft second loans will be for a term of 10 years. A forgiveness clause will reduce the loan amount due by 20 percent a year for every year the consumer stays in the home after five years. At the end of the 10 years the note will be considered satisfied and ADOH will release the second lien connected with the note. These soft second loans will be utilized to reduce a portion of the principal on the loan, the amount of which will be required to be matched by the primary lender. During the period of the loan it will be considered “due on sale.” Any remaining amount not previously “forgiven” will be due, if the home has increased in equity. If the home has not increased in equity to the degree necessary to repay the note, all or a portion of the note may be forgiven so as not to create additional hardships on the seller at the time of closing. Any loan proceeds that are returned to the Program would be reutilized to assist additional homeowners.

The assistance qualifications are as follows:

1. Assistance of up to \$50,000
2. Affordability/Profitability Test (APT) Pass (Maximum Principal and Interest (P&I) is equal to or greater than 100 percent of Net Return on Real Estate Owned (NROREO) minimum P&I.)
3. Subject property must be the applicant’s primary residence and must be owner-occupied.

4. Mortgage balance(s) must be greater than 120 percent of subject property's fair market value.
5. After assistance, the mortgage's new principal balance should be reduced to a minimum of 110 percent of the current market value.

### **Second Mortgage Settlements**

Assistance will be provided to remove second mortgages when necessary to modify terms of primary loans or when the second is burdensome in and of itself. This assistance can be up to \$5,000 to incentivize lenders to settle second mortgages in order to assist an applicant when 31 percent of their current monthly income can support a payment that is reflective of the market to market value of their home.

The assistance qualifications are as follows:

1. Assistance of up to \$5,000
2. Affordability/Profitability Test (APT) Pass (Maximum Principal and Interest (P&I) is equal to or greater than 70 percent of Net Return on Real Estate Owned (NROREO) minimum P&I.)
3. Subject property must be the applicant's primary residence and must be owner-occupied.
4. Mortgage balance(s) must be greater than 120 percent of subject property's fair market value.
5. After assistance, the mortgage's new principal balance should be reduced to a minimum of 110 percent of the current market value.

### **Temporary Modification Assistance**

Assistance is designed to give underemployed homeowners mortgage relief for a reasonable period of time while they are actively seeking to become sufficiently employed. This assistance can be up to \$12,000 to remove second mortgages as necessary to modify the terms of the primary loan and to pre-pay all or a portion of mortgage loan payments for a specific period of time (e.g., up to 24 months).

The assistance qualifications are as follows:

1. Assistance of up to \$12,000
2. APT Pass (Maximum P&I is less than 100 percent and greater than 70 percent of NROREO minimum P&I.)
3. Subject property must be the applicant's primary residence and must be owner-occupied.
4. Mortgage balance(s) must be greater than 120 percent of subject property's fair market value.
5. After assistance, the mortgage's new principal balance should be reduced to a minimum of 110 percent of the current market value.

Interested consumers will be encouraged to access the Program website at [www.savemyhomeaz.gov](http://www.savemyhomeaz.gov) to begin the application process. Various tools will be available on the website to assist prospective consumers in determining if they are eligible for the program. Prior to accessing a program application, a filter will be applied that will notify potential participants whether or not they appear to be eligible for the program. Interested individuals who do not qualify will still be given a referral to a nonprofit counseling agency, but will not proceed to the application portion of the website. Those who appear to initially qualify will need to complete the online application and follow the application submission instructions. Program information will also be available through a toll-free hotline that can connect interested consumers with a participating Counseling agency. Individuals without access to the internet may work with the Counseling agencies to complete their applications on-line.

The Program will be available statewide. Funding priority will be given to qualified applicants whose lender readily agrees to the program conditions. However, goals based on the incidence of foreclosures in geographic areas will also be adopted. ADOH will monitor the geographic distribution of loans under the program, and reserves the right to limit availability to certain areas if necessary in order to ensure that areas of highest foreclosure need are being served. The Program will operate until all HFA Hardest-Hit Funds available for the Program (including any loan repayments and additional awards received by the State) have been disbursed.

The goal of the Program is to achieve a 90 percent success rate on its loan modification requests. This will require a precise understanding of the lender's objectives and the applicant's abilities in addition to ADOH's ability to impact the desired outcome (which is a permanent modification). It is projected that 83 percent of the program funds will be used to facilitate permanent loan modifications which may include second mortgage settlements. It is further projected that 7 percent of the program funds will be used to facilitate stand alone second mortgage settlements. The remaining 11 percent will be utilized to provide mortgage payment relief assistance which may include second mortgage settlements.

The major measure of success for the program will be determined largely by the level of lender cooperation and participation with the program. Primarily this will be evaluated by the lenders acceptance of modification/settlement requests. Secondly, this will be evaluated and appropriately altered according to the lenders reasoning for the rejection of modification/settlement requests.

The minor measure of success for the program is to ensure applicants seeking assistance receive a comprehensive explanation with supporting documentation when they fail to qualify for assistance.

### **Compliance and Monitoring**

Progress for the program will be monitored frequently through various methods as outlined below.

### **Foreclosure Counseling Agency Reporting**

In addition to its transmittals for individual applicants and assistance, the foreclosure counseling agency shall submit monthly reports to ADOH updating program activity, using the Save My Home AZ Program report. ADOH may request additional information from the foreclosure counseling agencies as needed to meet its monitoring or reporting obligations to the federal and state governments.

### **Foreclosure Counseling Agency Record Maintenance**

The foreclosure counseling agency shall establish assistance documentation files for each applicant originated through the foreclosure counseling agency and retain those files for the term of the program assistance loan plus three years (e.g., 13 years if the term of the loan was 10 years).

### **Federal Reporting**

ADOH will be the responsible party for any federal reporting requirements. A detailed database of borrowers receiving assistance will be developed and updated monthly progress reports and beneficiary packages delivered to ADOH by the foreclosure counseling agencies. The database will enable ADOH to provide all required data for federal reporting through whatever method Treasury determines.

### **ADOH Loan Servicing**

ADOH will service the Program loans. Any monies recaptured through loan proceeds will be placed in an account maintained by the Corporation.

ADOH currently expects to service loans as follow:

***Sale of the Property.*** If the property is sold during first five years of the term of the loan, the full amount of the loan is repayable to the extent that equity exists to repay the loan. If the property is sold during years 6 through 10 of the term of the loan, the amount of required repayment is reduced at a rate of 20 percent per annum and the reduced amount becomes repayable to the extent that equity exists to repay the loan at the time of sale. ADOH will issue a demand upon request from the title company. The loan balance may be forgiven in its entirety or in part, if adequate equity does not exist from which to repay the loan through sales proceeds.

***Refinancing.*** Assisted applicants may refinance only when the refinancing will result in a lower monthly housing payment for the assisted family. First mortgage refinancing that lowers the overall debt of the assisted family without lowering the monthly housing

payment will not be eligible. Refinancing which results in increased debt to the household will also not be allowed.

When first mortgages are refinanced, the Save My Home AZ documents must be recorded in second position to the refinanced first mortgage. All recording costs and related closing costs are the responsibility of the borrower.

For refinanced first mortgages, the Save My Home AZ Program may charge a document preparation fee of \$50.00 to cover associated administrative costs.

*End of Loan Term.* At the completion of the 10 year loan term ADOH will cancel the note and re-convey its deed of trust on the property.

**Loan Monitoring**

ADOH will monitor ongoing ownership and occupancy of the properties. In the event that the applicant has sold or ceased to occupy the property as his or her primary residence, ADOH will require repayment of the program assistance loan.

**Federal and State Audits**

ADOH will be responsible for responding to monitoring and auditing requirements of the federal and state governments.

Lenders and foreclosure counseling agencies will be required to cooperate with requests from ADOH or federal or state agencies for information relating to the program and program assistance loans.

**B. POPULATION SERVED AND ALLOCATION METHOD**

It is anticipated that Save My Home AZ will assist a minimum of 4,348 households in avoiding imminent foreclosures. Given the average of 2.77 individuals per Arizona household, over 12,000 individuals should be assisted. Based on the geographical makeup of our market place we suspect approximately 75 percent of these households will be in Maricopa County, which includes the Phoenix metropolitan area. It is estimated that of the remaining 25 percent of households to be assisted is estimated to be 9 percent will be in Pinal County and 8 percent will be in Pima County with the remaining 8 percent spread throughout other rural counties in the state.

<u>Program Set-asides:</u>	<u>Percentage</u>	<u>Permanent Mods</u>	<u>Second Mortgages</u>	<u>Temp Mod</u>	<u>Totals</u>
<b>Maricopa County</b>	75%	\$ 69,300,000.00	\$ 5,625,000	\$ 9,000,000.00	<b>\$ 83,925,000.00</b>
<b>Pima County</b>	8%	\$ 7,392,000	\$ 600,000	\$ 960,000.00	<b>\$ 8,952,000.00</b>
<b>Pinal County</b>	9%	\$ 8,316,000	\$ 675,000	\$ 1,080,000.00	<b>\$ 10,071,000.00</b>
<b>Balance of state</b>	8%	\$ 7,392,000	\$ 600,000	\$ 960,000	<b>\$ 8,952,000.00</b>
<b>Totals</b>	100%	<b>\$ 92,400,000.00</b>	<b>\$ 7,500,000.00</b>	<b>\$ 12,000,000.00</b>	<b>\$ 111,900,000.00</b>



Eligible households will be analyzed based on two primary factors which are affordability and profitability. Each household will be evaluated to determine an affordable and sustainable monthly mortgage payment according to its gross monthly income. This calculated monthly mortgage payment will be converted into a net present value (NPV) in dollars. The current fair market value of this particular home will be evaluated based on a mark to market methodology in order to determine its current NPV. This current NPV will be adjusted for foreclosure and disposition costs associated with the subject property in order to determine the NPV if this particular property became real estate owned (REO) in the event the lender decided to foreclose. The NPV of the household's monthly mortgage payment will then be compared to the NPV of the lender's REO in order to assess the feasibility of a loan modification, from the lender's point of view.

Additionally, as mentioned in the introduction, Arizona has adopted guiding principles which will dictate, in part, which segments of the homeowner population will be served through the Program. An overriding goal of the Program is to ensure that it assists homeowners who have demonstrated personal responsibility in their home purchase choices heretofore. It is the Program's intent to assist those who, through no fault of their own, are facing the potential loss of their home due to the current and unprecedented economic conditions.

- **Foreclosures must be imminent.** Resources would only be utilized for households who have exhausted all options in remaining current on their mortgage payments. For instance, households who continue to pay other debt such as credit card debt, while neglecting to pay their primary mortgage may not be eligible for assistance.
- **Modest primary residences.** Resources would only be utilized for primary residences that are owner-occupied, and to assist households with incomes at or below 120 percent of the area median income. Additionally, households would have to demonstrate that their incomes had been reduced since the home was last financed.
- **Personal responsibility.** Resources would not be used to assist households who face foreclosure due to "self-inflicted" wounds (e.g., refinancing to take out equity, mortgages based on undocumented income, risky loan programs, etc.)
- **Statewide availability.** Resources would be made available statewide. However, geographic set-asides would be devised to assure distribution commensurate with the foreclosure rates.
- **Hardships.** Applicants must demonstrate an approvable hardship. Those include: reduced income due to underemployment, medical condition, divorce or death.

Our Program projections indicate it will require approximately three years to utilize all funds. This timeline takes into consideration the establishment of and marketing of the program as well as the screening of consumers and evaluation of the eligible applicants. Additionally, this timeline accounts for the lender/servicer cooperation and participation in reaching the desired results.

While we are initially estimating that it will take up to three years to utilize all of the Program funding, these goals may be adjusted after the Program has been in existence for several months, if the actual monthly level of activity indicates something different from preliminary estimates.

	FY2011	FY2012	FY2013	Total
	7/1/2010-6/30/2011	7/1/2011-6/30/2012	7/1/2012-6/30/2013	
<b>Program</b>	\$ 33,570,000.00	\$ 44,760,000.00	\$ 33,570,000.00	<b>\$ 111,900,000.00</b>
<i>Annual Program Activity</i>	<i>30%</i>	<i>40%</i>	<i>30%</i>	<i>100%</i>

The major anticipated obstacle to the effective implementation and execution of this program is the lender/servicer cooperation. This cooperation is defined by the following three essential factors:

1. There must be a clear and consistent means by which our foreclosure counselors can deliver our modification requests to the lender/servicer for evaluation.
2. There must be timely and clear decisions communicated by the lender/servicer to our foreclosure counseling partners regarding our modification requests.
3. There must be effective delivery of modification documentation to the foreclosure counseling agency on the part of the lender/servicer once an agreement is reached.

Provided these three things can be accomplished on the part of the lender/servicer the success of the Program is exponentially increased. ADOH is already working diligently with the lender community, and will continue to do so over the next several months, in order to ensure that Arizona's program is workable within the policies and processes of the lenders.

In order to leverage the funds, ADOH expects the lender/servicer to match any principal reduction provided through the Program. It is expected that this match will be no less than one to one. For example, if ADOH provides \$30,000 in assistance for a principal reduction we expect the lender/servicer to provide an equal if not greater principal reduction in order to assist in the process of obtaining an affordable and sustainable monthly mortgage payment for the household. In some instances the lender/servicer will need to contribute a larger amount based upon the affordability/profitability assessment of the transaction and the Program's maximum assistance per household. For example, if a \$130,000 principal reduction was required in order to provide an affordable and sustainable monthly mortgage payment for the household and an assessment of the property's value justified the reduction, the program would provide assistance up to the \$50,000 maximum. The lender/servicer would be requested to provide the additional principal reduction of \$80,000 which would result in a 1 to 1.6 match.

The existence of the HOME Affordable Modification Program (HAMP) provides meaningful leverage in terms of establishing a consensus of what constitutes a quality loan modification. This takes into consideration the monthly mortgage payment, and the fact that it should not exceed 31 percent of the gross monthly income. It also takes into consideration principal reduction which plays a major role in aligning the mortgage payment with the consumer’s ability to pay. HAMP calls for effective consideration of the lender/servicer options as well; this is accomplished through the use of an NPV model. Therefore, our program guidelines are consistent with HAMP underwriting guidelines with one major exception. This exception is the fact that our program emphasizes a loan modification based on a “mark to market” analysis. Meaning while we evaluate the consumers ability to pay in light of the investor’s cash flow we do not go below “market” in terms of interest rate or property value when determining our modification assistance or request.

Our Neighborhood Stabilization Program (NSP) documentation preparation and delivery system will also be leveraged in order to produce the required documents to deliver the Save My Home AZ Program assistance. Additionally, this structure brings considerable efficiencies in terms of program monitoring information as well. We can and will track the lender/servicers that approve modifications. Home Mortgage Disclosure Act (HMDA) data will be captured and analyzed as a part of this process as well.

**Pre-Program Implementation Timeline**

May	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
	----- TREASURY REVIEWING PLAN -----
	<p><b>Week of May 3:</b></p> <ul style="list-style-type: none"> <li>• Determine website vendor; execute contract with June 30, 2010 delivery date. Meet with vendor.</li> <li>• Draft Request for Qualifications (RFQ) Application for counseling partners.</li> <li>• Receive incorporation approval from Arizona Corporation Commission.</li> <li>• Continue:               <ul style="list-style-type: none"> <li>○ Ongoing discussions with lenders.</li> <li>○ Working on Program Handbooks and Standard Operating Procedures.</li> </ul> </li> </ul> <p><b>Week of May 10:</b></p> <ul style="list-style-type: none"> <li>• Issue RFQ for any additional counseling partners, beyond existing.</li> <li>• Publish incorporation articles for the “eligible entity.”</li> <li>• Conduct job interviews for 3 new positions.</li> <li>• Select title company and execute agreement between title company and “eligible entity.”</li> <li>• Continue:               <ul style="list-style-type: none"> <li>○ Ongoing discussions with lenders.</li> <li>○ Working on Program Handbooks and Standard Operating Procedures.</li> <li>○ Working with website developer.</li> </ul> </li> </ul> <p><b>Week of May 17:</b></p> <ul style="list-style-type: none"> <li>• Hold first Board of Directors Meeting of “eligible entity.”</li> <li>• Continue to conduct job interviews for 3 new positions; check references.</li> <li>• Begin planning of marketing campaign.</li> </ul>

	<ul style="list-style-type: none"> <li>• Continue: <ul style="list-style-type: none"> <li>○ Issue draft MOU with lenders; continue ongoing discussions with lenders.</li> <li>○ Working on Program Handbooks and Standard Operating Procedures.</li> <li>○ Working with website developer.</li> </ul> </li> </ul> <p><b>Week of May 24:</b></p> <ul style="list-style-type: none"> <li>• Conclude hiring for new positions.</li> <li>• Continue: <ul style="list-style-type: none"> <li>○ Ongoing discussions with lenders.</li> <li>○ Working on Program Handbooks and Standard Operating Procedures.</li> <li>○ Working with website developer.</li> <li>○ Working on marketing campaign.</li> </ul> </li> </ul>
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<b>June</b>	<b>31 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30</b>
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	<p style="text-align: center;">----- ANTICIPATED APPROVAL BY TREASURY-----</p> <p><b>Week of May 31 (Holiday):</b></p> <ul style="list-style-type: none"> <li>• RFQ for counseling partners due June 4.</li> <li>• Continue: <ul style="list-style-type: none"> <li>○ Follow up on MOU with lenders; ongoing discussions with lenders.</li> <li>○ Working on Program Handbooks and Standard Operating Procedures.</li> <li>○ Working with website developer.</li> <li>○ Working on marketing campaign.</li> </ul> </li> </ul> <p><b>Week of June 7:</b></p> <ul style="list-style-type: none"> <li>• Establish bank account for eligible entity.</li> <li>• ADOH to transfer advance to “eligible entity” for start up costs.</li> <li>• Review RFQ for counseling partners and Title Company by in-house staff on June 10.</li> <li>• Notify any new counseling partners and selected Title Company on June 11.</li> <li>• Continue: <ul style="list-style-type: none"> <li>○ Ongoing discussions with lenders.</li> <li>○ Finalize Program Handbooks and Standard Operating Procedures.</li> <li>○ Working with website developer.</li> <li>○ Working on marketing campaign.</li> </ul> </li> </ul> <p><b>Week of June 14:</b></p> <ul style="list-style-type: none"> <li>• New staff to start; orientation and training.</li> <li>• Finalize marketing campaign.</li> <li>• Continue: <ul style="list-style-type: none"> <li>○ Ongoing discussions with lenders; finalize processes.</li> <li>○ Working with website developer.</li> </ul> </li> </ul> <p><b>Week of June 21:</b></p> <ul style="list-style-type: none"> <li>• Hold two-day counseling agency training.</li> <li>• Hold training with local lenders participating in program.</li> <li>• Continue training new staff.</li> <li>• Continue follow up training with counseling agencies as needed.</li> <li>• Release initial marketing.</li> <li>• Continue: <ul style="list-style-type: none"> <li>○ Ongoing discussions with lenders; finalize processes.</li> <li>○ Working with website developer; testing system.</li> </ul> </li> </ul> <p><b>Week of June 28:</b></p> <ul style="list-style-type: none"> <li>• Continue training new staff.</li> <li>• Continue follow up training with counseling agencies as needed.</li> </ul>
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- Continue:
  - Ongoing discussions with lenders; finalize processes.
  - Working with website developer; testing system.
  - Follow up on initial marketing.

**PROGRAM READY FOR TEST LAUNCH: JULY 5, 2010**

**Weeks of July 5 and 12:**

- Counseling partners will be required to test three cases each, by entering test cases into the electronic system and tracking through the system.
- Last minute adjustments to website, etc. and increased marketing efforts.

**ACTUAL LAUNCH DATE AND FIRST DRAW DOWN: BETWEEN JULY 19 – AUGUST 2, 2010**

Should website development, hiring, training of counseling partners and most importantly, agreements with lenders not move as quickly as this schedule suggests, OR Treasury’s approval of the proposal require delaying any of these steps, we would suggest the alternative launch date of August 2.

As noted above in the timeline, ADOH intends to conduct a “test launch” a couple of weeks prior to actual program implementation. This testing will occur through a controlled rollout with our existing housing counseling agencies through NFMC and the consumers they are currently working with. Each counseling partner will be required to test three cases, by entering test cases into the electronic system and tracking through the system.

**C. DEMONSTRATION OF CAPACITY TO IMPLEMENT**

The Arizona Department of Housing (ADOH) has been in existence for nearly a decade, providing oversight for over \$1.7 billion in state and federal housing resources. ADOH, and its bond issuing arm, the Arizona Housing Finance Authority, have administered over \$161 million in single family mortgage and multi-family development bonds.

In this current fiscal year the agency operates under a budget of over \$135 million, overseeing such resources as the State Housing Trust Fund, and federal programs such as the Community Development Block Grant (CDBG) Program, HOME Investment Partnership Program, Housing Opportunities for Persons with AIDS, Shelter Plus Care, Supportive Housing Program, the Low-Income Housing Tax Credit Program, Section 8 Housing Choice Voucher Program, Section 8 Project-Based Contract Administration, and most recently a plethora of economic recovery programs, such as the CDBG-R, Homeless Prevention and Rapid Re-housing Program (HPRP), Tax Credit Assistance Program (TCAP), the Tax Credit Exchange Program, Neighborhood Stabilization Program (NSP) and the National Foreclosure Mortgage Counseling Program (NFMC).

In administering its federal allocations, the agency has a close working relationship with both the U.S. Department of Housing & Urban Development (HUD) and the U.S. Treasury/Internal Revenue Service (IRS).

Over the past year ADOH has effectively administered two major programs directly related to dealing with the foreclosure issue. The two programs referenced are the

Neighborhood Stabilization Program (NSP), funded through the HUD, and the National Foreclosure Mitigation Counseling (NFMC) program, funded through NeighborWorks®.

The NSP plan, which is designed to move homebuyers into vacant, foreclosed homes, was designed, developed and implemented by ADOH in as little as six months. Since being launched in May 2009 this program assisted more than 600 households in purchasing foreclosed properties as primary residences. This was accomplished through a newly established funding mechanism in accordance with the Housing Economic Recovery Act (HERA). The NSP program has exceeded expectations and more than accomplished its initial intended objectives.

In May of 2008 ADOH designed, developed, and implemented the NFMC program to assist homeowners facing foreclosure with counseling and help modifying their loans. This required the expansion of our then existing network of HUD approved counseling agencies as well as the establishment of a toll-free foreclosure hotline. To date this program has provided foreclosure mitigation counseling to nearly 8,000 households and answered basic foreclosure related questions for more than 34,000 households. This has entailed working with consumers and lenders/servicers alike to achieve mortgage modifications, short sales, deed-in-lieu of foreclosure, and most importantly transition with dignity to consumers.

Our Community Development & Revitalization (CD&R) division personnel have been instrumental in the efficacies of the previously mentioned programs as well as a long standing homeownership program. The addition of key personnel for the coordination of the NSP plan has brought significant understanding of the residential mortgage markets which have further enhanced the knowledge base of this division.

### **Key Staff Experience**

#### **Community Development & Revitalization Administrator**

The CD&R Programs Administrator has 9 years of experience in the private sector mortgage industry in processing, underwriting and closing of mortgages as well as 10 years of experience with federally funded and state funded housing programs including down-payment and closing cost assistance programs and a foreclosure purchase assistance program with ADOH. The CD&R Programs Administrator has supervised up to 11 staff persons who have oversight of federally funded or state funded programs and has been involved in program policy and implementation development for those programs and has a long standing working relationship with many of the foreclosure mitigation counseling agencies.

### **Save Your My Home AZ Program Coordinator (SMHAZ)**

The SMHAZ Program Coordinator has over 20 years of mortgage lending knowledge and experience in the private sector. This industry experience is well balanced in management, retail, wholesale, sales, operation, servicing, underwriting of conforming and non-conforming loans. The SMHAZ Program Coordinator has recently managed a wholesale mortgage operation with over 200 employees and \$250 million dollars a month in production. This management included the complete oversight of operations, originations and training. Most recently the SMHAZ Program Coordinator has helped to design, develop and implement the agency's Neighborhood Stabilization Program which has exceeded expectations. Additionally, the SMHAZ Program Coordinator contributes to the management oversight of the National Foreclosure Mitigation Counseling Program. The combined experience with these two programs has severed the Coordinator well as we have worked to design, develop and implement this program.

#### **D. STAFFING AND BUSINESS PARTNERS**

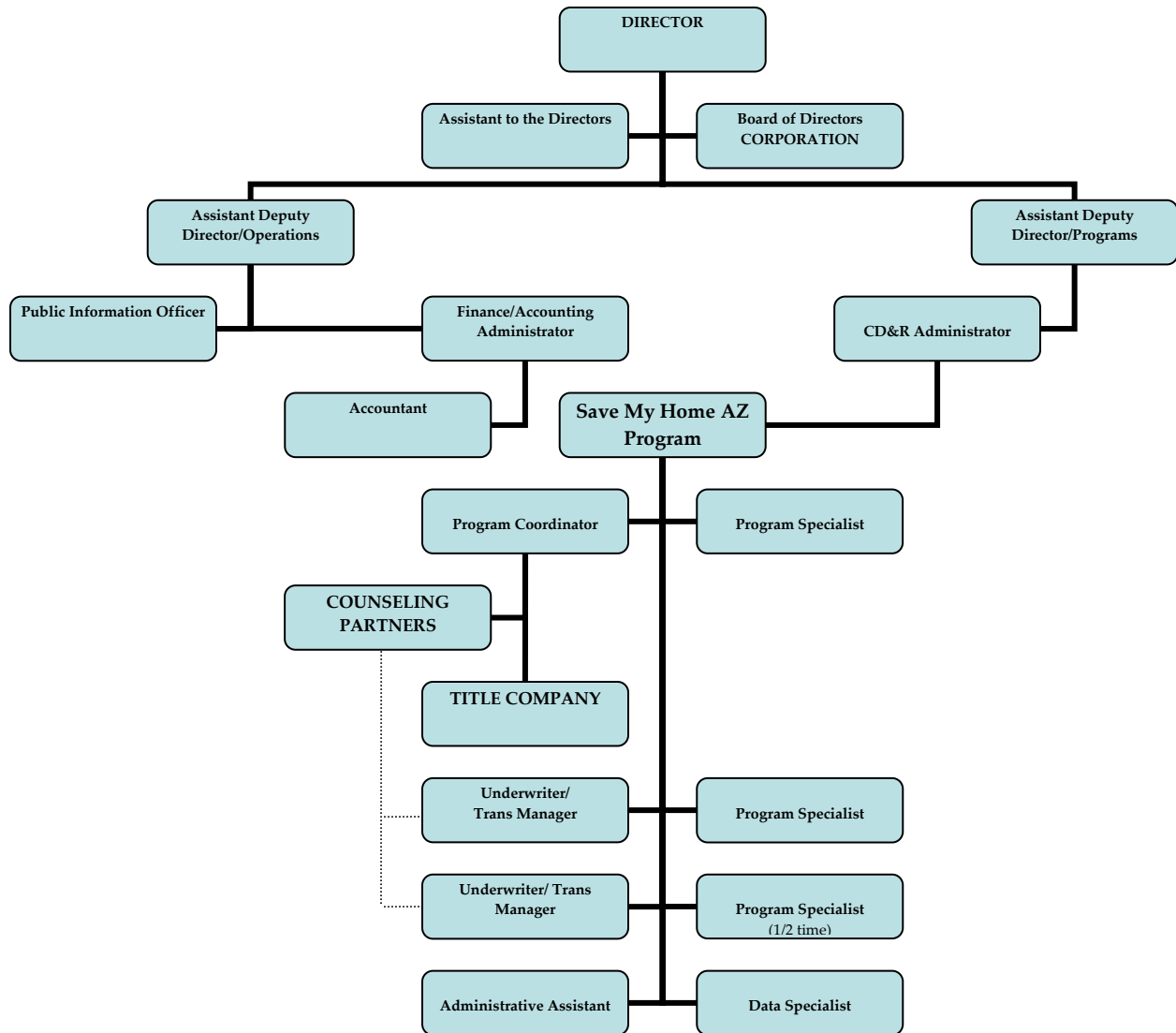
The grant will be accepted by and flow through the Arizona Home Foreclosure Prevention Funding Corporation (the Corporation), a nonprofit corporation which was established solely for the purpose of accepting this Treasury award. The Corporation will be executing an Agreement with the Arizona Department of Housing (ADOH) to provide staffing to the effort. The Agreement will allow ADOH staff to facilitate and execute agreements on its behalf to meet any and all program-related needs, including lender and partner agreements, and to procure whatever goods and services necessary to carry out all terms of the Agreement with Treasury for the delivery of the Program.

ADOH will rely upon the Save My Home AZ division to handle the day-to-day program delivery. The ADOH personnel primarily assigned to the delivery of this program will consist of the following:

- One Program Coordinator
- Two Underwriter/Transaction Managers
- Two and one/half Program Specialists
- One Administrative Assistant
- One Data Specialist

Additionally, the program's administration will also be supplemented by other supporting and operational staff including a portion of time devoted to the program by the Director, Assistant Deputy Director/Operations, Public Information Officer, Finance & Accounting Administrator, Accounting, Assistant Deputy Director/Programs, and the CD&R Program Administrator.

ADOH Program Team’s organizational structure is illustrated below:



A description of associated job duties for each of these individual positions is outlined below, along with the anticipated percentage of the time it is anticipated each will spend on the Program.

**Director (.15)**

The Director will provide direction and guidance at the highest levels for the administration of this Treasury program. The Director is providing direction and guidance on program design and will maintain an ongoing, active role in the oversight and promotion of the program. The Director is expected to continue in the role of main liaison between Treasury and the state of Arizona. Initially the Director will conduct weekly Team meetings, including all key management team members. As the program



progresses meetings may be rescheduled to bi-weekly or monthly. The Assistant to the Directors provides administrative support to the Director and Assistant Deputy Directors, at no cost to the program.

**Assistant Deputy Director/Operations (.15)**

The ADD/Operations will provide oversight of the following operational functions in support of the Program, including: legal review, public information dissemination, program marketing, budgeting, finance and accounting, procurement of goods and services, and information technology needs.

**Public Information Officer (.15)**

The PIO will act as the agency spokesperson in the absence of the Director, handling the day-to-day inquiries from the press. The PIO will disseminate information to the media and play a key role in the marketing of the Program.

**Finance & Accounting Administrator (.15)**

The Finance & Accounting Administrator will oversee all accounting functions connected with the Program, including, but not limited to: payment of all program obligations, accounting, monthly and annual financial reports, and audit.

**Accountant (.10)**

The Accountant assigned to the Program will handle the day-to-day accounting functions associated with the Program.

**Assistant Deputy Director/Programs (.15)**

The CD&R division reports to the ADD/Programs who is providing direction and guidance at the highest levels of program design and will maintain an ongoing, active role in the oversight of the Save My Home AZ. The ADD/Programs will serve as the highest level of authority for authorizing program waivers and major program management decisions.

**Community Development & Revitalization Administrator (.15)**

All members of the Save My Home AZ Program will report directly to the CD&R Administrator. The Administrator will provide ongoing supervision to the daily management of the program. All program waivers and major program management decisions will be first reviewed and approved by the Administrator prior to a final determination by the ADD/Programs. The Administrator will coordinate with outside Program partners in the absence of the Coordinator. In the absence of the Coordinator, all offers of Program assistance to individual homeowners must be signed off on by the Administrator.

**Save My Home AZ Program Coordinator (1.00)**

The Program Coordinator will be responsible for the overall coordination of the Save My Home AZ Program and will manage the day-to-day work flow of the remaining members of the Save My Home AZ team. The Program Coordinator will hold the main responsibility for assuring that program partners are on track with goals and reporting and meeting all intents and purposes of the Program. The Coordinator will work closely with lender representatives on program design and implementation, as necessary. All offers of assistance to individual homeowners must be approved by the Coordinator.

### **Underwriters/Transaction Managers (2.00)**

The Underwriter/Transaction Managers will be responsible for reviewing individual application packets received from Counseling partner agencies or directly from lenders, conducting underwriting and due diligence tasks to assure that applicants are eligible for assistance and that assistance levels have been correctly calculated. These managers may work closely with lenders and counseling partners to work out waivers or handle problems that arise. The managers will make final recommendations on all offers of assistance to the Coordinator for final approval.

### **Program Specialists (2.50)**

The Program Specialists will hold the primary responsibility for handling all of the associated legal and lender-related paperwork required for the final closing on each individual loan. They will work closely with title companies and escrow officers as necessary to complete each transaction. These positions will be responsible for the establishment and maintenance of all loan and assistance files.

### **Data Specialist (1.00)**

The Data Specialist will handle all of the data entry and reporting requirements for the Program.

### **Administrative Assistant (1.00)**

The Administrative Assistant assigned to this Program will provide all clerical assistance needed by the Team and will be charged with maintaining a detailed tracking of all pending applications in the Program que.

## **Outside Partners**

### **Counseling Agencies**

ADOH will expand its existing network of contracted HUD approved counseling agencies to provide pre and post foreclosure prevention assistance counseling. Additionally these counselors will evaluate consumer's application for program qualifications and make appropriate recommendations for assistance to ADOH. The current base of counseling agencies and counselors with these agencies are as follows:

- 15 Agencies throughout the state
- 50 Foreclosure Counselors
- 10 Spanish Speaking Foreclosure Counselors

It is expected that we will add an additional five to seven agencies in the primary-two Metropolitan Statistical Areas (MSA) of Maricopa and Pima County. This will provide an additional 15 to 20 foreclosure counselors. This level of foreclosure counselor support should enable us to provide timely responses and quality information to all program applicants.

Counseling agency partners will be compensated through several mechanisms, including:

- \$100 application evaluation fee;

- \$325 counseling fee on each home that closes a permanent or temporary modification; and
- \$6,250 monthly participation fee, which will give them the resources to dedicate no less than one FTE to this program on a full-time basis.

### **Title Company**

It will be necessary to contract with a title company to provide the following services which will be required to deliver the Program assistance and complete the modification process:

- Preliminary Title Search
- Automated Valuation Models (AVM)
- Signing/Closing
- Title Insurance
- Escrow Services

As a result of the scope of this program it has been determined that in order to provide consistent quality service one service provider is the most effective way to accomplish this.

### **Toll-free Hotline**

ADOH will utilize an existing partnership with a nonprofit community information and referral agency that provides a 24-hour, toll-free hotline that directly connects callers with our Counseling agency partners. The hotline will be compensated at \$5,000/month.

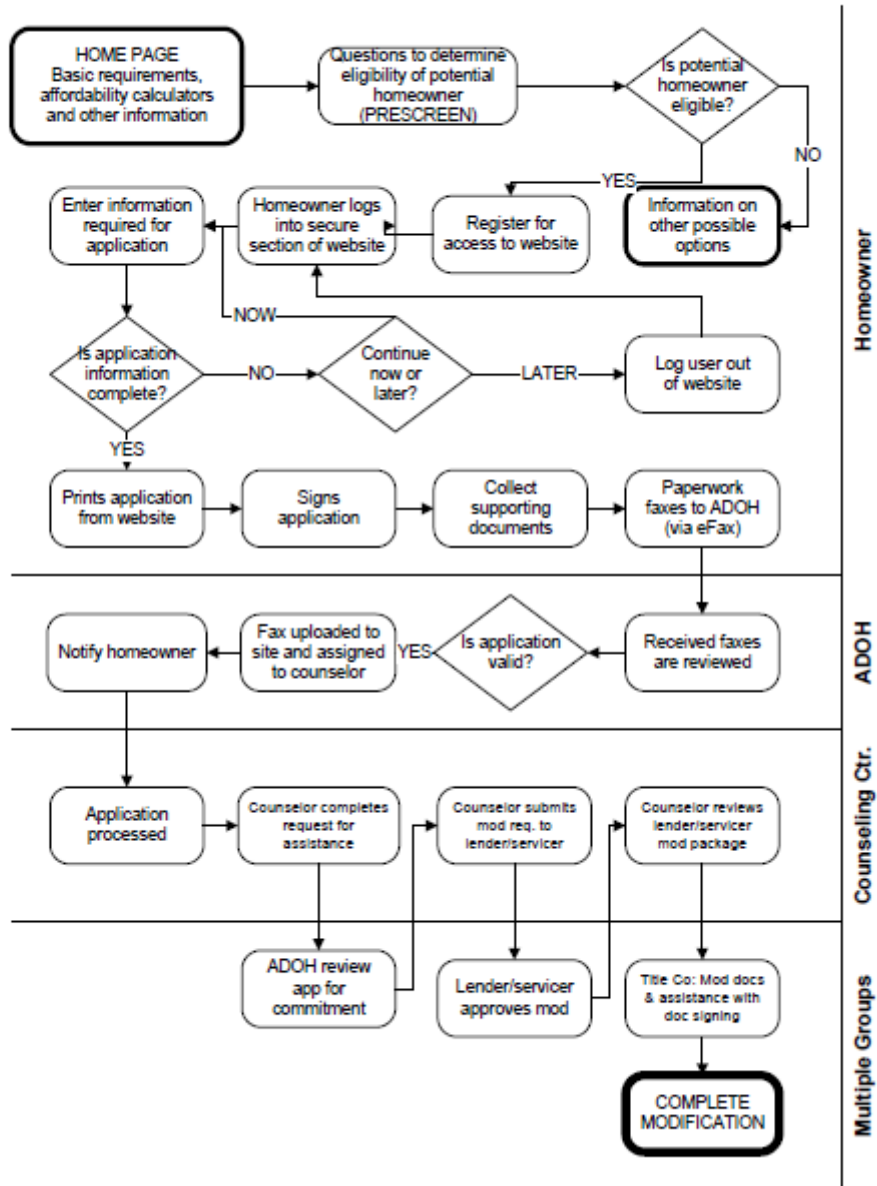
Please see the administrative expense section below for the detail compensation associated with this portion of the proposal.

## Detailed Program Flow Chart

Program Flow is illustrated below. The process for each component of assistance is identical and the distinction of the type of assistance to be delivered is made at the “Application Process” stage.

### System Overview

The following diagram provides an overview of the basic functionality of the SaveMyHomeAZ website.



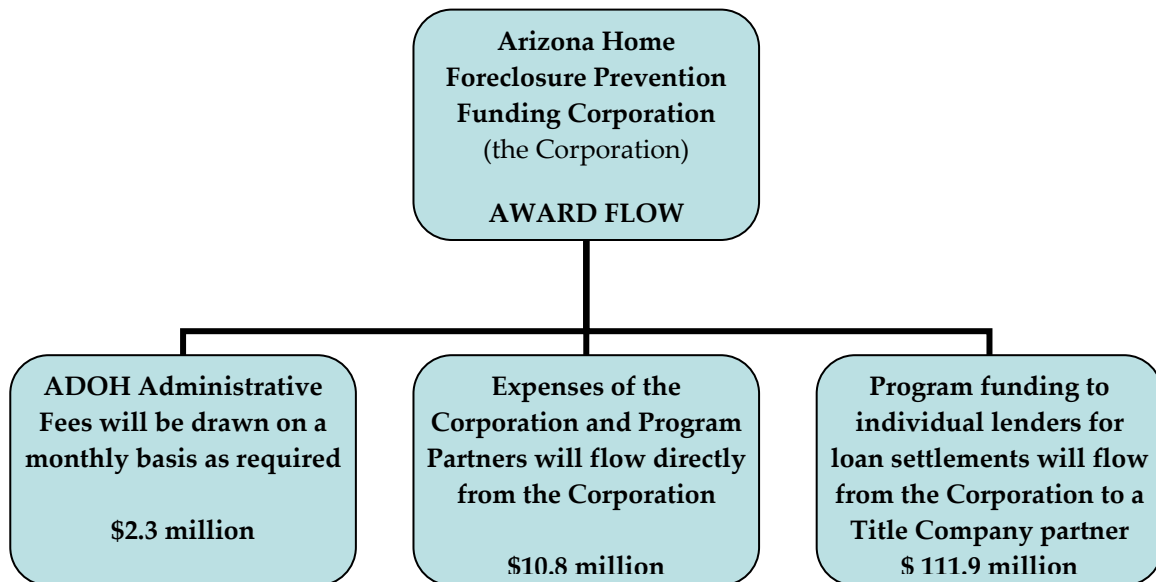
**E. ADMINISTRATIVE EXPENSES**

ADOH expects to expend approximately 11 percent of the \$125.1 million award on administrative or delivery-related expenses of the Corporation, ADOH, and its delivery partners (e.g., Counseling agencies.) Of that 11 percent just under 5 percent will support costs of the Corporation or ADOH and just under 6 percent will be utilized to support the services provided by the Counseling Agency partners.

**Administrative breakdown between “Internal” and “External”:**

Administrative Breakdown:		% of grant
Internal - State or Corp	\$ 5,836,900	5
External - Counseling Partners	\$ 7,363,100	6
	<b>\$ 13,200,000</b>	<b>11</b>

In order to receive this grant, ADOH has established the Arizona Home Foreclosure Prevention Funding Corporation (the Corporation). We anticipate that the money will flow through the Corporation as illustrated below.



**Anticipated timeline for all expenditures:**

	FY2011 7/1/2010-6/30/2011	FY2012 7/1/2011-6/30/2012	FY2013 7/1/2012-6/30/2013	Total
Administration	\$ 4,470,128.00	\$ 4,364,936.00	\$ 4,364,936.00	\$ 13,200,000.00
Program	\$ 33,570,000.00	\$ 44,760,000.00	\$ 33,570,000.00	\$ 111,900,000.00
<b>Total</b>	<b>\$ 38,040,128.00</b>	<b>\$ 49,124,936.00</b>	<b>\$ 37,934,936.00</b>	<b>\$ 125,100,000.00</b>
<i>Annual Program Activity</i>	<i>30%</i>	<i>40%</i>	<i>30%</i>	<i>100%</i>

**Draw Schedule**

We would anticipate that the first monthly draw would be just over \$3.6 million, or 1/12<sup>th</sup> of the anticipated expenditures for year one. Additional draws would not be requested until the balance in the account established by the Corporation for the receipt of these funds was depleted to approximately \$1 million. At that time the next \$3.6 million draw would be made in anticipation of future closings and expenses.

**Administration - ADOH**

ADOH will seek to be reimbursed by the Corporation for expenses incurred by the agency in the delivery of the Program. The agency is not proposing the use of an indirect allocation plan. Below is the expected budget. The agency will only seek to be reimbursed as costs are incurred. Any unused budget will be rolled over to assist additional households.

		<b>ADOH Annual Save My Home AZ Budget</b>	
Salaries		\$	472,108.48
ERE		\$	162,217.42
Outside Prof Services		\$	10,965.00
In State Travel		\$	2,500.00
Out of State Travel		\$	1,500.00
Other:			
Space @\$697.91/monthx8.5 FTE		\$	71,186.82
Office Supplies \$500/yrx8.5FTE		\$	4,250.00
Postage and Delivery		\$	2,800.00
Risk Management \$400/yr*8.5 FTE		\$	3,400.00
Subscriptions, Books, Publications		\$	2,000.00
Printing		\$	2,000.00
Telecommunications \$420/yr*8.5 FTE		\$	3,570.00
<b>TOTAL</b>		<b>\$</b>	<b>738,497.72</b>
<i>Expected Monthly</i>		\$	61,541.48
<i>Expected Annual</i>		\$	738,497.72
<i>Three Year Total</i>		\$	2,215,493.15

**Administration – Corporation**

The following administrative or supporting costs would be paid directly by the Corporation.

	<b># of Transactions</b>	<b>Per Transaction</b>	<b>On-going/1x</b>	<b>Annual</b>	<b>FY2011-FY2013</b>
Audit - Corporation			\$ -	\$ 18,000.00	\$ 54,000.00
Marketing - Years 2-3			\$ -	\$ 10,000.00	\$ 30,000.00
Closing Costs (1)	3,348	\$ 736.00	\$ 2,464,128.00	\$ -	\$ 2,464,128.00
Decision Costs (2)	4,348	\$ 10.00	\$ 43,480.00	\$ -	\$ 43,480.00
Wire transfer fees	4,348	\$ 15.00	\$ 65,220.00	\$ -	\$ 65,220.00
Toll Free Hotline			\$ -	\$ 60,000.00	\$ 180,000.00
Corporate Insurance			\$ -	\$ 50,000.00	\$ 150,000.00

Miscellaneous	\$	29,386.85	\$	-	\$	29,386.85
<b>Total</b>	\$	<b>2,602,214.85</b>	\$	<b>138,000.00</b>	\$	<b>3,016,214.85</b>

(1) Closing costs include: \$36 Recording fee; \$500 Title Insurance; \$200 Settlement Charge.

(2) Decision Costs are attributable to an Automated Valuation Model (AVM) on-line property appraisal system.

### **Counseling Agency Partner Fees**

The following fees are being proposed to support the work being provided by the Counseling Agency partners to the process. All fees would be reimbursed to the Counseling agencies directly through the Corporation.

<b>Counseling Partner Fees</b>	<b># of Transactions</b>	<b>Per Transaction</b>	<b>On-going/1x</b>	<b>Annual</b>	<b>FY2011-FY2013</b>
Evaluation Fee	10,000	\$ 100.00	\$ 1,000,000.00	\$ -	\$ 1,000,000.00
Counseling	4,348	\$ 325.00	\$ 1,413,100.00	\$ -	\$ 1,413,100.00
Counseling Agency Staffing			\$ -	\$ 1,650,000.00	\$ 4,950,000.00
<b>TOTALS</b>			<b>\$ 2,413,100.00</b>	<b>\$ 1,650,000.00</b>	<b>\$ 7,363,100.00</b>

Two of the proposed fees to the Counseling partners would be based on the number of transactions.

- For every application that is reviewed, the Counseling agency would receive a reimbursement of \$100.00 with applications anticipated at 10,000 over a three year period. Bear in mind that the Program application will be accessed, primarily, through a website that will contain filters. The Counseling agencies will only review applications that are completed, as the website will not allow the printing of incomplete applications. This screening will limit the number of applications to those who may appear to be initially eligible; the review will allow for further, human screening that only a counselor can do.
- For every closed transaction, the Counseling agency will receive a \$325.00 Counseling fee. This will incent the Counseling agencies to complete transactions.
- \$75,000.00 annual participation fee to each Counseling Agency partner, to be issued on a monthly basis. ADOH expects up to 22 partner agencies.

### **One-time Start Up Costs**

The Corporation and ADOH will seek to be reimbursed for the following costs related to launching the Program.

Legal	\$	4,192.00
Equipment	\$	6,000.00
Marketing	\$	25,000.00
Website development	\$	50,000.00
Start Up Contingency	\$	500,000.00
<b>Total</b>	\$	<b>585,192.00</b>

- For pre-award legal expenses.

- Computer equipment for three new hires.
- Initial marketing material costs that would not be an on-going expense.
- Web design consultants to design the Save My Home AZ website. ADOH has experience in designing a website for its Your Way Home AZ Program funded through the Neighborhood Stabilization Program, and would set up a similar, user-friendly website available in both English and Spanish. The front end of the website would provide information on the program. The program application would be completed on-line. A pre-filter will be in place to ensure that only those homeowners most likely to be eligible will be able to apply. Homeowners who are determined ineligible through the web filter will be referred to HUD Counseling agencies for counseling only, available through other resources. On the back end, the website will contain a storage mechanism for all applications, making the applications accessible by all those deemed necessary in the review process. The website will include required encryption to assure confidentiality of consumer information. The agency currently has a bids ranging from \$35,000 - \$45,000 for this work, and has budgeted up to \$50,000 to ensure that costs such as web address registration, website hosting, and related costs are covered. One other alternative that is currently under review is a website that NeighborWorks has designed that is currently being marketed and used by counseling agencies nationwide, as well as by a number of lenders. This product appears significantly more expensive (\$300,000 range), but could hold some significant advantages in that it is already up and running and would take little time to adapt or customize for Arizona's use and has already been approved for use by some of the nation's major mortgage servicers. This last option would require usage of the "start up contingency" mentioned below.
- The Corporation has budgeted \$500,000 as a "start up contingency", for unanticipated administrative or start up costs. Any funds not utilized for such purposes within the first 12 months of the program would be returned to the Program budget, resulting in aid to approximately 10 additional households.

## **F. OVERVIEW OF RISK MANAGEMENT/FRAUD PREVENTION**

The initial assessment of applications will be completed by the foreclosure counseling agencies. This is the first step in preventing fraud and insuring proper management of risk in terms of delivering the Program assistance. As a part of their process they will evaluate and verify consumer's eligibility in accordance with the program guidelines. This will include assessing the applicant's need and verifying the eligibility of the circumstances creating the need. A major condition of qualifying for the Program assistance is an eligible hardship which has been determined not to be self inflicted. The second major condition of qualifying for the Program assistance is the applicant's ability to sufficiently financially contribute to the objective of obtaining a permanent mortgage modification. The foreclosure counselor is charged with properly assessing the applicant's ability to fulfill this portion of the Program guidelines.

ADOH will confirm the foreclosure counseling agent's assessment of the applicant's qualifications and recommendation for assistance prior to issuing a commitment for assistance.



Additionally ADOH will complete further investigation of the transaction. This will include but is not limited to evaluation of the property's value, condition of title to the property and the applicant's ability to sufficiently financially contribute to the objective of obtaining a permanent mortgage modification.

Lastly, the lender/servicer whose cooperation is essential to the success of this program bears mutual responsibility and desire to ensure that fraud is not perpetrated and assistance is provided to qualified applicants. The driving force behind the lender/servicer commitment to this effort is the fact that they will be contributing financially to the objective of obtaining a permanent mortgage modification as well. Therefore, it is reasonable to expect nothing less than complete diligence on their part in assisting to ensure that only qualified applicant's receive assistance.

#### **G. TRACKING/REPORTING**

The two methods for measuring the program's success will be the conversion ratio of modification requests to modifications obtained and homeowners not re-defaulting and remaining in their homes. The conversion goal for the program is 90 percent and the homeowner retention rate goal is 90 percent. This means that ADOH expects to receive lender cooperation in nine out of ten scenarios proposed to them.

The performance measures of the program will be monitored in terms of the time it takes ADOH to deliver the desired and expected services the program is designed to provide. The following is a brief outline of key measuring components and timelines:

- Acknowledgement of initial application submission. This will be accomplished by way of an automated response immediately.
- Initial foreclosure prevention counseling with the consumer (this will address any missing information and possible solutions). This should occur within five business days of application submission. This timeline is communicated to the applicant on the automated response to the application submission and will be updated as needed.
- Consensus between the applicant and the foreclosure counselor on the type of assistance to be requested from ADOH. The decision making process for the counselor should not take more than 24 hours. However, it is reasonable to expect the consumer to need more time to come to terms with their situation and the potential solutions. Therefore, 72 hours will be allotted for the consensus period.
- ADOH's response to the requests for assistance (this will address confirmation of the request and delivery of the commitment). These evaluations and commitments are expected to be completed within five working days.
- Foreclosure counselor's submission of the modification request to the lender/servicer. The foreclosure counselor should submit the modification request to the lender/servicer within 72 hours of receiving the ADOH commitment for assistance.
- Foreclosure counselor's review of the lender/servicer modification documentation and request for assistance documentation from ADOH. The foreclosure counselor should complete this review and request within 72 hours of receipt of the documentation.

- ADOH's preparation of foreclosure assistance documentation. ADOH should complete these requests within 72 hours.
- Foreclosure counselor's scheduling of the signing of the modification and program assistance documentation with the title company. Foreclosure counselor should be able to accomplish the scheduling within 48 hours of receipt.
- Title Company's completion of the signing and disbursement of the proceeds as well as return of all executed docs. Title Company should be able to complete the signing and disburse the proceeds according to the instructions within ten working days (this includes the consumer's right to rescind period).
- ADOH will monitor homeownership retention over the duration of the program. ADOH will survey homeowners who have been assisted with the program every six months to determine if they have remained in their homes.

Based on the above timeline of events these modifications could take as little as 34 days to complete.

Data tracking will consist of two primary categories which are consumer information and lender/servicer information. Below is a detailed list of the consumer data to be monitored:

- Lender/Servicer
- Race
- Ethnicity
- Household Type
- Assistance Type
- Lien Type First/Second
- Debt Ratios (before and after assistance)
- Percentage of Area Median Income (AMI)
- Geographical Area

The below is a list of lender/servicer data to be monitored:

- Name
- Type of modification requested
- Response to request (approved/denied)
- Response time to request (reasonable/unreasonable)
- Poor performance per transaction will be tracked

## **H. BUSINESS PARTNER SELECTION**

Arizona intends to engage two types of business partners in its program structure. It intends to contract with up to 22 HUD-certified non-profit mortgage foreclosure counseling agencies to provide the face to face interaction with homeowners, handling all counseling tasks and negotiating for loan modifications and other assistance with the lenders. The second business

partner will be one title company, selected to handle all of the loan closing transactions on behalf of the program.

ADOH has not identified any potential conflicts of interest for either type of partner. However, ongoing monitoring will be handled by ADOH and should conflicts be identified, ADOH will put into policy mitigation efforts that must be adhered to and will monitor as such.

**Counseling Partners.** ADOH currently contracts with 15 non-profit HUD-certified mortgage foreclosure counseling agencies for the delivery of the National Mortgage Foreclosure Counseling (NFMC) program. Because of its current relationship with these agencies and their proven track record in providing mortgage foreclosure counseling to the state over the past several years, we intend to contract with these agencies as partners to assist with the Treasury program as well. These counseling agencies are located throughout the state, covering urban as well as rural areas of the state.

In order to add additional counseling partners for the two urban counties of the state, Maricopa and Pima, where the bulk of the foreclosure problem lies, the Corporation will issue a Request for Qualifications (RFQ) to all other HUD-certified mortgage foreclosure counseling agencies working within these two urban areas of the state. The criteria for selection will include questions designed to ascertain capacity, historical service delivery figures, and audit reviews. An internal review group made up of ADOH staff and the director of ADOH who is also the Executive Director of the Corporation will review all qualifications and will make a recommendation to the Corporation Board regarding additional partners. Current certification standings will be verified with HUD by ADOH staff. ADOH will select up to 7 additional counseling agencies.

All current and newly selected counseling agencies will be required to sign contracts with the Corporation to provide these services and will be required to attend a series of trainings conducted by ADOH prior to the program's launch. Risks include failure to properly counsel homeowners, failure to proceed in a timely fashion with counseling and loan modification processes, failure to correctly identify the best course of modification for individual homeowners, and lack of proper documentation. The work of the counseling agencies will receive additional scrutiny over the first three months of the program as well as on an ongoing basis and counseling agencies that are not moving forward with production goals or experiencing other issues or concerns or are experiencing a lack of demand for their services may be dropped as partners.

**Title Company.** Arizona intends to select one title company partner to conduct all closing transactions on behalf of the program. As such, the Corporation will be issuing a Request for Proposals (RFP) to select the most highly qualified company to contract with for these services. The selection criteria will include qualifications and cost. Given that costs are likely to be relatively similar, qualifications to conduct the business at hand may weigh more heavily in the RFP.

The same internal review committee that will review the counseling partner qualifications will also review the title company proposals. Only title companies with proven track records will be chosen. The agency has a history of working with any number of title companies who will meet this criteria.

The risks associated with this business partner are relatively minimal. Closing dates must be adhered to, closing instructions must be strictly followed, and each transaction will require title insurance. ADOH staff will monitor performance extremely closely over the first three months and on an ongoing basis as appropriate.

### **PROGRAM COMPLIANCE**

Monitoring reviews for program compliance will be conducted by partner HUD Certified Foreclosure Counseling Agencies and ADOH staff at several stages during the modification process on each application for assistance. Included below is a step by step process for the flow of applications for foreclosure prevention assistance through the Save My Home AZ program. Those items that are part of review for compliance are bolded.

**Step 1:** Consumer visits program website and completes the program assistance and modification request package. **The website which is sponsored and maintained by ADOH will allow only satisfactorily completed packages to be submitted for a request for assistance.** The website filters and directs the completed request package to ADOH for review who then forwards to a HUD Certified Foreclosure Counseling Agency.

**Step 2:** HUD Certified Foreclosure Counselor will receive the completed request package via the program website and will complete the following:

- a. **Review package for documented hardship**
- b. **Review package to determine if a reasonable modification request is possible.**
- c. Contact consumer to retrieve any necessary supporting documentation and counsel the consumer either in person or by phone on the possible mitigation solutions.
- d. **Verify the modification request is supported by acceptable documentation. (i.e. income, property value, credit report, utility statements or letters, mortgage statement, property taxes, HOA, insurance etc. )**
- e. **Determine consumer's housing and total debt ratios based on gross and net income.**

**Step 3:** Provided the package is properly documented and supported and provided a reasonable balance between consumer affordability and lender profitability can be obtained, the HUD Certified Foreclosure Counselor will submit the request package for foreclosure prevention assistance to ADOH for approval. **ADOH will determine whether the request package meets program compliance through review of the package for the following:**

- a. **Property is Owner Occupied and consumer has committed to remaining in the property**
- b. **Credit report evidencing a 60 day mortgage delinquency**
- c. **Purchase mortgage financing exceeds property value by 120% or more.**
- d. **Modification will achieve a monthly payment of no more than 31% of the consumer's gross monthly income.**

- e. **Consumer's income does not exceed 120% AMI.**
- f. **Hardship is documented and is due to loss of income due to underemployment, medical condition, divorce or death.**

**Step 4:** Provided the request package and all documentation is in accordance with the program guidelines, an assistance commitment letter valid for 45 days will be issued by ADOH to the HUD Certified Foreclosure Counseling Agency on behalf of the consumer.

**Step 5:** HUD Certified Foreclosure Counseling Agency will submit the ADOH commitment and modification request package with all supporting documentation to the Lender for approval.

**Step 6:** The Lender will review the modification request for approval and issue their modification approval containing any conditions to the HUD Certified Foreclosure Counseling Agency.

**Step 7: HUD Certified Foreclosure Counseling Agency will review the approved modification to determine that no unacceptable changes have been made by the lender.**

**Step 8:** HUD Certified Foreclosure Counseling Agency will open escrow with Title for the ADOH Foreclosure Assistance Loan and will forward the acceptable modification checklist and request for foreclosure assistance loan documents and funds to ADOH.

**Step 9:** ADOH will prepare documents and funds and forward back to HUD Certified Counseling Agency.

**Step 10: HUD Certified Foreclosure Counseling Agency will review loan documents** and forward to Title for signing. Title will be instructed to send recorded Deed of Trust and Original Note to ADOH. Title will be instructed to forward the proceeds from the foreclosure assistance loan and the signed modification agreement to the Lender. HUD Certified Counseling Agency will forward a completed assistance loan package to ADOH along with their request for reimbursement of counseling and file review fees. .

**Step 11: ADOH will review completed assistance loan package and request for reimbursement. No fee reimbursement payments will be made until loan package is fully documented and properly completed.**

In addition to the transmittals for individual applicants and assistance, ADOH staff will monitor the HUD Certified Foreclosure Counseling Agency monthly through the web portal for their loan pipelines and program activity. ADOH may request additional information from the foreclosure counseling agencies as needed to meet its monitoring or reporting obligations to the federal and state governments.

Finally, ADOH staff will conduct at least quarterly on-site monitoring visits to the HUD Certified Foreclosure Agency to review a random sampling of consumer assistance files for program compliance.

### **READINESS ASSESSMENTS**

ADOH has detailed how it has evaluated the needed capacity for the program. As a result of the ADOH evaluation it has determined additional staffing at ADOH and additional HUD approved housing counseling agencies are required and is in the process of making those hiring decisions. ADOH has also detailed the process intended to manage the homeowner modification program and is creating standards of performance along with a measurement system to monitor performance. ADOH is currently evaluating technologies that will be utilized for the application and document management process. ADOH has researched several options and is currently comparing the final three to make a decision. Program launch is projected by July 19, which allows for preliminary testing of the systems and process from July 5 to that date.

### **ONGOING INTERNAL CONTROLS**

There will be a dual set of assessments of the internal controls over this program. (1) The eligible entity will engage an outside certified public accounting firm to conduct an annual audit; and (2) Secondly, as a component agency of the State of Arizona, ADOH will be subject to the state's annual audit conducted by the independent offices of the State Auditor General.

The independent audit of the eligible entity will be conducted using generally acceptable accounting standards. The audit of ADOH will be conducted in accordance with generally accepted government auditing standards. As you are probably aware, those standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for any findings and conclusions based on audit objectives.

ADOH will monitor the internal controls of all selected counseling agency partners both at the beginning of the program and on an ongoing basis according to the agency's monitoring guidelines. Additionally, the majority of these partners, due to myriad other state and federal funding sources, are already required to be subjected to an annual, independent audit conducted according to generally acceptable accounting principles. ADOH will require the submission of these annual audits for review throughout the program period.