

**Statement
By**

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before the

**Banking, Housing and Urban Affairs Committee
of the
Senate of the United States**

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Good morning and thank you for the invitation to meet with you today. I am Brian Hudson, the Pennsylvania Housing Finance Agency's Executive Director and Chief Executive Officer.

PHFA is the Commonwealth's leading finance organization for affordable homes and rental apartments. It was created by the state legislature in 1972. Its core mission is to finance affordable apartments and homes at minimal expense to Commonwealth taxpayers through the issuance of securities. Statewide, the Agency has provided nine billion dollars of funding for 126,000 homes and 80,000 apartments.

PHFA does not receive a general appropriation from the Commonwealth for its programs or operations, with the exception of the Homeowners' Emergency Mortgage Assistance Program (HEMAP), a foreclosure prevention effort, which is the primary focus of my presentation today.

Act 91 of 1983 authorized PHFA to develop the Homeowners' Emergency Mortgage Assistance Program to help certain homeowners who were in danger of losing their homes to foreclosure. This change in PHFA's statute was brought about by an early 80's recession which led to a large number of foreclosures, particularly in the southwestern part of the state.

HEMAP prevents mortgage foreclosures resulting from defaults caused by circumstances beyond a homeowner's control. It provides loans to bring delinquent mortgage payments current and may also provide continuing help with mortgage payments. Total assistance cannot exceed 24 months.

The Program has been very successful. It has saved 40,000 families from foreclosure by providing over \$416 million in loans. Over 19,000 loans have been paid in full and HEMAP has received over \$234 million in principal and interest repayments from homeowners who have benefited from the program. These repayments are recycled into new HEMAP loans, assisting additional Pennsylvanians. State appropriations have totaled \$211.5 million. The average loan to a distressed homeowner is \$10,400; much less than the \$35,000 it costs to complete an FHA foreclosure action. Additionally, it does not consider the impact of foreclosures on families, neighborhoods, communities, as well as mortgagors.

Generally, the program works as follows: If someone with a mortgage in the Commonwealth becomes 60 days or more delinquent, before foreclosing, lenders are required to send an "Act 91" Notice informing the homeowner of the HEMAP program and directions on how to apply.

After receiving the Notice, a homeowner has 30 days to have a face-to-face meeting with a consumer credit counseling agency, which then has 30 days from

that date to get the application to PHFA. Eighty-four counseling agencies throughout the state provide this service.

Counseling agencies are under contract with PHFA to prepare applications for HEMAP loans. Their job is to help homeowners present the most complete and accurate applications regarding their financial circumstances. They also counsel homeowners on financial matters and spending habits and often serve as negotiators between homeowners, mortgage lenders and other creditors in forbearance negotiations.

Upon receipt of the application, the Agency has 60 days to render a decision of eligibility. If an application is made in a timely manner, mortgagors are required to halt any foreclosure action until PHFA has rendered a decision.

The following eligibility criteria must be met to obtain HEMAP loan assistance:

- Homeowners must be at least 60 days delinquent on at least one of their mortgages. If a homeowner has more than one mortgage, not all mortgages need to be delinquent. However, no more than two mortgages can receive HEMAP assistance.

- The home must be located in Pennsylvania and the homeowner must reside in the home.

- The home must be a one or two-family residence.

- By statute, mortgage loans insured by the Federal Housing Administration under Title II of the National Housing Act are not eligible.

- HEMAP loans cannot exceed \$60,000 or 24 months of payments.

- HEMAP loans can be in no worse than a third lien position.

- Homeowners must be suffering financial hardship due to circumstances beyond their control which renders them unable to correct the delinquency within a reasonable period of time--loss of employment from layoffs or plant closings, serious medical problems and spousal abandonment are typical circumstances.

- Homeowners must be able to demonstrate that they have a reasonable prospect of resuming normal mortgage payments within 24 months and paying off the mortgage by maturity. Job skills, employment history, efforts at retraining, etc., are all relevant factors that the Agency will consider in determining whether there is a reasonable prospect of applicants' being able to resume making full mortgage payments within 24 months.

If approved, a homeowner can receive up to 24 months of loan disbursements. Mortgage payments are made by HEMAP directly to the lender on the homeowner's behalf. PHFA assistance is in the form of a mortgage loan. The

HEMAP interest rate is statutorily set at nine percent. However, interest does not accrue until the homeowner is financially able to start repayment based on a formula established by statute.

If denied a HEMAP loan, the homeowner has 15 days to appeal the decision. This appeal process is not part of the law but rather was instituted by the Agency to provide applicants with a second opportunity to resolve misunderstandings. A lender may continue the foreclosure action during the appeal process.

New Initiatives to assist Homeowners with Sub-prime Mortgages

In August of 2004, PHFA and the PA Department of Banking released a report on lending practices in Monroe County, Pennsylvania, which was being hit especially hard by foreclosures. It was determined that this county, which is adjacent to New York City, was being targeted with questionable marketing, lending and appraisal tactics. The Agency's experience in Monroe County provided PHFA with a "leg up" on averting widespread foreclosures in the Commonwealth. An outgrowth of PHFA's involvement in Monroe County was a statewide counseling network established and paid for by PHFA to provide free counseling to anyone attempting to purchase a home. That counseling network has been in place for four years. Additionally, the Agency has proposed

legislation that will provide it with a data base of foreclosure actions that are being initiated in the Commonwealth at the very start of the process so that trouble spots in the future can be detected early. Also, the Banking Department has proposed changes to its regulations and several statutes to better control mortgage lending in the Commonwealth.

To address the current mortgage foreclosure threat in the Commonwealth brought about by sub-prime and abusive lending practices, PHFA has developed two programs: **Refinance to an Affordable Loan (REAL)** and the **Homeowners Equity Recovery Opportunity (HERO)**. Explanations of their operations are below. Both programs are funded through the sale of taxable securities. Additionally, PHFA has set aside \$10 million for a loss reserve fund. PNC Bank has also loaned PHFA \$5 million at a below-market interest rate for 15 years to assist in this region of the state. Philadelphia has also provided PHFA with \$1 million for a loss reserve fund targeted to help PHFA assist residents of the city. Discussions are underway with other lenders and municipalities.

REAL Program (REfinance to an Affordable Loan)

The REAL program was designed to provide affordable 30-year fixed interest rates to homeowners who initially obtained an adjustable rate mortgage (or some other ‘exotic’ mortgage product) and are no longer able to afford the

adjusted mortgage payments. Because the REAL program combines 100 percent financing with flexible credit underwriting, it offers relief to homeowners who otherwise may not qualify for other mortgage refinance programs.

A network of 77 approved lenders originates, closes and sells the loans to the Agency. Today, interest rates are 7.625 percent with no points and 7.375 percent with one point.

The following is a summary of the program guidelines:

- The combined gross annual income of all borrowers may not exceed \$120,000. This may be waived for consumers not eligible for a refinance loan available in the general market.
- Applicants may be up to 59 days behind on their existing mortgage and can include arrearages in the REAL loan amount.
- The applicant's monthly total debt obligations including the REAL loan payment may not be more than 50 percent of total gross monthly income (or 45 percent for borrowers with a credit score below 620).
- The REAL loan may be used to finance items such as subordinate mortgages, closing costs, prepayment penalties, delinquent property taxes, and arrearages that have occurred within the past 12 months after a payment reset.
- Borrowers must have a credit score of at least 620 **OR** meet both of the following conditions:

1. The mortgage payment adjusted in the last 12 months to a higher interest rate or a fully amortized payment and the applicant has made no more than two, 30-day late payments since the adjustment. The mortgage payment history 12 months prior to the adjustment shows no history of late payments.
2. The credit history of other debt (car loan, credit cards, etc.) shows no more than three, 30-day late payments 12 months prior to the mortgage adjustment.

HERO Program (*Homeowners Equity Recovery Opportunity*)

HERO is a loan program designed to improve the financial situation of Pennsylvanians who are not able to afford their current mortgage payments. This program is for borrowers not eligible for PHFA's REAL program or another mortgage refinance product available in the general market due to credit issues or owing more than their home's current appraised value.

HERO provides for up to 100 percent financing but, instead of the borrower refinancing into a new loan, PHFA purchases the loan directly from the current lender and then sets up an affordable repayment agreement with the homeowner. In cases where more is owed than the home's current value, PHFA may negotiate for a discounted purchase of the loan from the current lender or servicer.

Applicants will also be advised to contact the Pennsylvania Legal Aid Network office in their area to explore any and all possible legal remedies to their mortgage situation. If appropriate, PHFA works with the Pennsylvania Department of Banking as well as the Pennsylvania Attorney General's Office to negotiate fair purchase terms with the current lender. PHFA-approved counseling agencies will provide debt and delinquency counseling to each HERO borrower to increase their level of financial literacy and help them learn how to more effectively manage their debt, budget their income and save money.

The interest rate for the HERO program is 7.95 percent with no points. This is a fixed rate, and there is no prepayment penalty. PHFA will service all HERO loans. Property taxes and insurance will be escrowed with the borrower's monthly mortgage payment.

The following is a summary of the program guidelines:

- The combined gross annual income of all borrowers may not exceed \$120,000. This can be waived for consumers not eligible for a refinance loan available in the general market.
- Applicants must demonstrate an effort to meet financial obligations to the best of their ability.
- Applicants must have stable and sufficient income to maintain timely mortgage payments on the HERO loan.

- Applicants must own the mortgaged property and reside in it as a permanent residence.
- The home's current value must support the proposed HERO loan.
- The current lender must accept PHFA's terms and conditions for purchasing the loan.

ISSUES

- Pennsylvania has approximately 213,000 sub-prime loans of which 16.69 percent are delinquent. Of the 213,000 sub-prime loans, 136,000 are fixed-rate of which 13.20 percent are delinquent and 77,000 adjustable rate mortgages (ARMS) of which 22.52 percent are delinquent.
- Many servicers and lenders are very slow or reluctant to negotiate to restructure loans for fear of being held liable by investors. If lenders would allow servicers to modify loans with agreed upon standards, more homeowners could remain in their homes.
- The establishment of a loss reserve fund for the restructured mortgages is critical for any refinancing initiative.

- A strong education component should be mandatory to provide homeowners with an understanding of mortgage products and homeownership responsibilities.

Stabilizing Communities Affected by Foreclosure

The Agency's community revitalization initiatives, collectively called the Homeownership Choice Programs, help distressed neighborhoods become desirable places to live by financing residential construction in urban areas and core communities throughout the Commonwealth. In Pennsylvania, this Program attracts private development to blighted urban areas and could with some adjustment provide stability to all types of communities throughout the nation affected by large scale foreclosures.

This public and private investment partnership has proven to be an effective means to restore tax bases and maintain neighborhoods.

Highlights

- Created in 2001
- Over \$463 million leveraged by \$75 million PHFA investment
- 2,031 new homes constructed or rehabbed
- 123 apartments, 28 condos and 64 commercial spaces rehabbed

- Catalyst for ongoing private and public investment
- Involves municipalities, community groups and private enterprise

Homeownership Choice Funding Model

Following is an example of how a typical Agency blight-remediation development brings a variety of funding sources together.

In 2001 a non-profit group had a vision to revitalize a neighborhood in a section of East North Philadelphia known as “The Badlands”. The area was plagued with severe blight, vacant lots and deteriorating shells of former residences and the crime and despair that accompany this environment. With the help of a \$1.7 million dollar loan from PHFA’s Homeownership Choice Program, over \$6.5 million in additional investment was able to be leveraged by the community group. These funds financed the clearing of entire blocks and the construction of 50 new homes. These new homes were sold prior to completion and one year later appraised for over 60 percent more than their original purchase price.

After this initial success, supplementary funds from the Homeownership Choice Programs allowed for the construction of an additional 55 new homes. They too were all sold prior to completion. In these first two phases, HCP loans of \$2.7 million have leveraged over \$9 million in additional investment. A third

commitment of \$1.575 million in loans has brought in another \$8.5 million in investment and will build 35 more new homes in the neighborhood.

The revitalization is dramatic. This portion of “The Badlands” is now “Pradera”, a safe, affordable and desirable neighborhood. Additional private development and investment is now underway, property values and home sale prices are rising--a complete reversal of life for the neighborhood and residents is evident.

Further information about PHFA programs may be viewed on the internet at www.phfa.org.

Again, thank you for the invitation. I look forward to answering any questions you may have.