

SECTOR COMMENT

Federal Funds for Hardest Hit Homeowners May Benefit Housing Agencies

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The Obama administration last Wednesday authorized five state housing finance agencies (HFAs) to distribute \$1.5 billion in funding as part of the first round of the government's "Hardest Hit Fund" (HHF) program, which aims to assist struggling homeowners.

The program is credit positive for California's and Michigan's state housing finance agencies, as well as for agencies in other states being considered for round-two funding, because portions of the funding may prevent foreclosures under their rated single-family, whole-loan bond programs. In addition, HHF is credit positive for HFAs overall because it reinforces their role on the front lines in the battle to turn around the housing market.

The California Housing Finance Agency (whose Home Mortgage Revenue Bonds are rated A3 review for downgrade) and Michigan State Housing Development Authority (whose Single Family Mortgage Revenue Bonds are rated Aa2 stable) stand to benefit from this program because unlike the other three states, their single-family, housing-bond programs are not secured by federally guaranteed mortgage-backed securities and thus are exposed to the risks of loan performance. Among the second-round states, North Carolina, Oregon, Rhode Island, and South Carolina also have rated whole-loan programs that could benefit.

The assistance will be made available to eligible homeowners with loans from various lenders in each of the states. The credit benefits of HHF for HFA programs will be determined by the number of loans in the HFA program selected to receive assistance.

State HFA single-family programs issue bonds to finance mortgages for low- and moderate-income, first-time homebuyers. The bonds are secured in part by a pledge of the mortgages, with careful oversight by the HFAs. State HFAs have been conservative in their lending practices; the loans are predominantly fixed-rate based on conventional underwriting standards and available only to owner-occupants. But the programs have experienced stress related to the deterioration of the housing market.

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The Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets was announced on 10 February by President Obama, with \$1.5 billion in funding. Arizona, California, Florida, Michigan, and Nevada (all of which experienced 20% declines in average home prices) were invited to submit proposals for using federal funds to help distressed homeowners, all of which were approved by the Treasury Department. In March, the government invited proposals for a second, \$600 million round from states with high unemployment: North Carolina, Ohio, Oregon, Rhode Island, and South Carolina. These proposals are under review.

The first-round HHF programs will use a variety of approaches, including reductions to principal, temporary mortgage assistance for unemployed homeowners, relief from second mortgages, assistance with curing arrearages, mortgage modifications, and transition assistance for homebuyers undergoing short sales.

Two other initiatives the U.S. Treasury launched in late 2009 were targeted specifically at strengthening HFAs. One program provided funding for HFA mortgage lending during 2010. The other provided liquidity and credit support for HFA variable-rate demand bonds. Although state HFA debt is not backed by the federal government or by the respective states, the addition of HHF reinforces the Treasury's recognition of the significant role HFAs have in addressing the housing crisis, which is overall credit positive for HFAs.

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