

SECTOR COMMENT

White House Expands Mortgage Relief Through State Agencies, a Credit Positive

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Analyst Contacts:

NEW YORK	1.212.553.1653
Bill Fitzpatrick	1.212.553.4104
<i>Vice President – Senior Credit Officer</i>	
William.Fitzpatrick@moodys.com	

Last week, the Obama administration authorized \$2 billion of additional funds for the Hardest Hit Fund (HHF), further expanding the role of state housing finance agencies (HFAs) that administer HHF to provide relief to homeowners struggling with mortgage payments because of unemployment.

The additional funding, like HHF itself, is credit positive for the 11 HFAs involved in this latest round of funding because they operate their own mortgage revenue bond programs that are secured by whole loans (rather than federally guaranteed mortgage-backed securities) and thus are exposed to the risk of losses from loan delinquencies or foreclosures. The 11 HFAs are in California, Georgia, Illinois, Kentucky, Michigan, New Jersey, North Carolina, Oregon, Rhode Island, South Carolina, and Tennessee.

Each HFA will administer the program in its respective state and make assistance available to eligible homeowners with loans from various lenders. The credit benefits for the HFA program will be determined by the number of loans in the HFA program that are selected to receive assistance.

As shown in the exhibit below, last week's authorization represents the third round of HHF funding and nearly doubles the size of the program (funding levels are detailed in the exhibit below). The Obama administration started HHF in February by soliciting proposals from HFAs in five states as to how they would use up to \$1.54 billion of funds to help homeowners. Proposals from those states were approved on 23 June. A second round of \$600 million to five additional state HFAs was announced in March, with proposals from all five states approved on 5 August.

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Hardest Hit Fund Funding

	ROUND 1	ROUND 2	ROUND 3	STATE TOTALS
Alabama			\$60,672,471	\$60,672,471
Arizona	\$125,100,000			\$125,100,000
California	\$699,600,000		\$476,257,070	\$1,175,857,070
Florida	\$418,000,000		\$238,864,755	\$656,864,755
Georgia			\$126,650,987	\$126,650,987
Illinois			\$166,352,726	\$166,352,726
Indiana			\$82,762,859	\$82,762,859
Kentucky			\$55,588,050	\$55,588,050
Michigan	\$154,500,000		\$128,461,559	\$282,961,559
Mississippi			\$38,036,950	\$38,036,950
Nevada	\$102,800,000		\$34,056,581	\$136,856,581
New Jersey			\$112,200,638	\$112,200,638
North Carolina		\$159,000,000	\$120,874,221	\$279,874,221
Ohio		\$172,000,000	\$148,728,864	\$320,728,864
Oregon		\$88,000,000	\$49,294,215	\$137,294,215
Rhode Island		\$43,000,000	\$13,570,770	\$56,570,770
South Carolina		\$138,000,000	\$58,772,347	\$196,772,347
Tennessee			\$81,128,260	\$81,128,260
District of Columbia			\$7,726,678	\$7,726,678
	\$1,500,000,000	\$600,000,000	\$2,000,000,001	\$4,100,000,001

Source: US Treasury Department

The new funds are available to HFAs in 17 states and the District of Columbia, all of which were selected because their unemployment rates have been at or above the national average over the past 12 months. Building on the programs designed by the 10 state HFAs already in HHF, the Obama administration specified that the new funds should be used for assistance in the form of partial mortgage payments for unemployed borrowers that demonstrate hardship in relation to their mortgage payments. The goal is to provide borrowers with a bridge that allows them to continue making payments while they look for new employment.

Recipients include nine HFAs that received funding in the first two rounds, plus nine first-time participants. The states with existing HHF programs may use the funds to augment existing programs. The nine new HFAs must submit proposals by 1 September.

State HFAs are tasked with the mission of fostering affordable housing. State HFA single-family programs issue bonds to finance mortgages for low- and moderate-income, first-time homebuyers. The bonds in whole-loan programs are secured by a pledge of the mortgages, with careful oversight by HFAs. State HFAs have been conservative in their lending practices; the loans are predominantly fixed rate and are based on conventional underwriting standards and available only to owner-occupants. But the programs have experienced increased delinquencies as housing markets have deteriorated.

HHF represents the third federal initiative targeting HFAs in the past year. Two other programs, both implemented in late 2009, include funding for HFA mortgage lending and providing liquidity and credit support for HFA variable rate demand bonds. Although state HFA debt is not backed by the federal government or the respective states, the expansion of HHF reinforces federal recognition of the significant role that HFAs play in addressing the housing crisis, which is overall credit positive for HFAs.

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 Author
 Bill Fitzpatrick

 Production Associate
 David Dombrovskis

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