

## HFA: Illinois Housing Development Authority

### Entry Name: Sustaining Homeownership: A New Opportunity for Illinois Housing Development Authority Borrowers Special Achievement

#### Overview

With one of the top 10 foreclosure rates in the nation, Illinois heeded the need by introducing a new program offering relief for homeowners in foreclosure. The Illinois Housing Development Authority's (IHDA) bond program that financed whole loans for first-time homeowners prohibits any modification on delinquent loans. Further, the bond program (Aa3/AA) was under duress due to the downgrade of insurance providers. IHDA responded by creating a Loan Modification Program ("Program") to help homeowners stay in the homes while strengthening the bond program at the same time.

#### Framework

In mid-April 2011, IHDA's new executive director challenged staff members to develop innovative ways to address the foreclosure problem.

Between mid-April and early May, staff met multiple times to determine:

- Cost and effect
- Type of hardship
- Underwriting requirements
- Rate
- Bond and rating requirements

By mid-May, staff presented the new Loan Modification Program and described its features. On May 20, 2011, staff presented plans to the IHDA board, and members unanimously approved the initiative.

The Program operates in the following manner:

- Identify delinquent loans or population in the bond program
- Reach out to the homeowner by sending postcard
  - Postcard has 800 number for the homeowner to call
- Reach out a second time by calling the homeowner directly
- Upon speaking to the homeowner, mail the application
- For homeowners successful in their application, IHDA would amend their loan by modifying term to a new 30-year mortgage, increase principal amount to cover arrearages and reduce payment to a level equal to 31 percent of housing expense ratio
- To deal with the new interest rate along with bond restrictions and requirements, IHDA acquired the loan outright from the bond program by utilizing available resources including funds generated through Pre-Ullman refunding bonds.

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**Results**

By structuring the Loan Modification Program in the manner mentioned above, IHDA was able to achieve the following:

- Keep homeowners in their homes
- Stabilize neighborhoods and reduce crimes
- Reduce transaction costs specifically foreclosure costs
- Strengthen the bond program by swapping out delinquent loans with cash
- Continue to receive pool insurance coverage even though loans were no longer financed by bonds

In its first few months, the program has proven to be an important new resource for qualifying households. “I was unemployed for six months, I dreaded the ultimate outcome if my exorbitant monthly mortgage bills continued. It is certainly a substantial relief knowing that at this time, I do not have to worry about such an imminent threat,” said the first borrower to benefit from the new program.

<p>The <b>IHDA Loan Modification Pilot Program</b> (Program) aims to provide a permanent solution for IHDA borrowers unable to maintain their mortgage payment due to a reduction in income.</p>	
<p><b>Program Goals</b></p>	<p>To purchase approximately 75 loans of eligible homeowners from the Homeowner Mortgage Revenue Bonds General Resolution and to permanently modify the loans to a level that is deemed affordable to the household.</p>
<p><b>Affordability Definition</b></p>	<p>Housing expense ratio equal to 31 percent of gross household income.</p>
<p><b>Target Population</b></p>	<p>The Program will be available on a first-come-first-serve basis to any Illinois borrower who:</p> <ul style="list-style-type: none"> <li>▪ secured a first mortgage under the IHDA MRB program;</li> <li>▪ has experienced a reduction in income;</li> <li>▪ is currently delinquent on their loan; and,</li> <li>▪ seeks IHDA’s assistance.</li> </ul> <p>Note: IHDA borrowers who have experienced a reduction in income but are current on their loan will be considered for modification should they seek IHDA’s assistance.</p>
<p><b>Program Allocation</b></p>	<p>\$5,000,000 (Affordable Housing Program Trust Fund Bonds General Resolution)                  \$2,000,000 (Housing Bonds Trust Indenture)</p> <p>The above-named sources will be used to purchase the mortgages and pay off the existing debt under the MRB indenture.</p>
<p><b>Program Overview</b></p>	<p>The IHDA Loan Modification Pilot Program is designed to:</p> <ol style="list-style-type: none"> <li>1) Target potential applicants by mailing postcards to IHDA borrowers within pilot zip codes who are delinquent on their mortgage and instructing them to call the IHDA hotline number for information on potential options ;</li> <li>2) Send an application packet to any borrower who responds to the postcard and calls the hotline number listed on it;</li> <li>3) Analyze returned packages to determine modification eligibility in the following manner;                         <ol style="list-style-type: none"> <li>a. Establish and verify total household income (households must have a permanent income source to be eligible);</li> <li>b. Determine what PITI the household can support by multiplying</li> </ol> </li> </ol>

	<p>total household income by 31 percent (Program definition of affordability);</p> <ul style="list-style-type: none"> <li>c. Calculate modified mortgage terms to meet affordability of the household income;             <ul style="list-style-type: none"> <li>i. Recast the mortgage term to 30 years;</li> <li>ii. Calculate the interest rate that achieves a payment the household can afford (must be greater than or equal to 2 percent);</li> </ul> </li> </ul> <p>4) Offer modification to eligible borrowers based on calculated recast mortgage;</p> <p>5) Acquire the delinquent residential first mortgage loan from the Homeowner Mortgage Revenue Bonds General Resolution at outstanding principal balance plus arrearages and fees, when applicable;             <ul style="list-style-type: none"> <li>a. For borrowers that are HHF-eligible, the assumption is that the arrearages will be processed and cured through the HHF program</li> <li>b. For borrowers that are not HHF-eligible, the arrearages would be added to the outstanding principal balance and addressed through the calculation outlined in #3 above</li> </ul> </p> <p>6) Provide each homeowner with a modified mortgage of the unpaid principal balance (plus arrearages if not cured under HHF); 30-year term; 30-year amortization ; and interest rate no less than 2%.</p>
<p><b>Borrower and Loan Eligibility Criteria</b></p>	<ul style="list-style-type: none"> <li>1) Loan must have originated through IHDA’s MRB Program</li> <li>2) Home must be owner-occupied</li> <li>3) Home must be a single family residence (one to four units)</li> <li>4) Home must be owner’s primary residence</li> <li>5) Household income must be at or below 120 percent of area median income</li> <li>6) Homeowner must commit to keep their home and comply with all Program terms and conditions</li> <li>7) Homeowner cannot own any other real estate</li> <li>8) Properties with additional liens (unless it is an IHDA 2nd mortgage) are ineligible</li> </ul>
<p><b>GI Loan For Heroes Program</b></p>	<p>For borrowers with a second mortgage from the IHDA GI Loan For Heroes Program that are eligible for a modification, the term on the modified first mortgage will not be 30 years but will be coterminous with the IHDA second mortgage.</p>

<b>Modified Loan Characteristics</b>	The mortgage will be modified to a fixed interest rate that the household can afford (but will not be less than 2%); 30-year term; and amortization of 30 years.
<b>Borrower Obligation</b>	Borrowers will be responsible to: <ol style="list-style-type: none"> <li>1) Make timely payments on modified mortgage;</li> <li>2) Continue to reside in the property as the primary residence; and</li> <li>3) Comply with all Program terms and conditions.</li> </ol>
<b>Borrower Payments</b>	Borrowers will make payments to IHDA. Loans will be serviced by IHDA.
<b>Maximum Modified Loan Amount</b>	The maximum modified loan amount will be equal to the current unpaid principal balance plus arrearages (if not cured under HHF).
<b>Estimated Number / Participating Households</b>	This program is estimated to help approximately 75 homeowners.
<b>Program Marketing</b>	Outreach will be limited to the distribution of postcards to IHDA borrowers within the pilot zip codes who are delinquent on their mortgage. The post card will encourage the borrower to call the IHDA pilot hotline for information on potential options regarding their loan (postcard will not mention modification nor the Hardest Hit Fund program).
<b>Program Duration</b>	On-going until Program funds are exhausted.
<b>Program Interactions with HHF</b>	It is expected that some of the households that seek assistance will qualify for the Hardest Hit Funds program. HHF-eligible homeowners and mortgages will be directed to the HHF program while the loan is being evaluated for modification and purchase. Under HHF, the mortgage will be brought current prior to IHDA's purchase, thus reducing the burden on the IHDA funds.