NCSHA

2013 Annual Awards Entry Form
(Complete one for each entry.)

Entry Name **Delinquent Loan Buyout Program**

HFA **Kentucky Housing Corporation**
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Program Contact **same**
Phone **Email**

Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013.**

Use this header on the upper right corner of each page.

HFA ____________________

Entry Name ____________________

Communications	**Homeownership**	**Legislative Advocacy**	**Management Innovation**
☐ Annual Report ☐ Promotional Materials and Newsletters ☐ Creative Media	☐ Empowering New Buyers ☐ Home Improvement and Rehabilitation ☐ Encouraging New Production	☐ Federal Advocacy ☐ State Advocacy	☒ Financial ☐ Human Resources ☐ Operations ☐ Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	**Are you providing visual aids?**
☐ Multifamily Management ☐ Preservation and Rehabilitation ☐ Encouraging New Production	☐ Combating Homelessness ☐ Housing for Persons with Special Needs	☐ Special Achievement	☐ YES ☐ NO

During 2010 and 2011, loan delinquencies and foreclosures for Kentucky Housing Corporation (KHC) reached an all-time high. Costs associated with collection and foreclosure continued to climb. KHC's portfolio of foreclosures became overwhelming as more foreclosures were added each month than were able to move off the books. Because of the sheer number of foreclosed loans being processed, KHC was not able to keep up with the filing of claims in a timely manner and recoup the maximum amount of interest paid to bond holders during the foreclosure process. In an attempt to reduce overall interest expense, KHC realized current cost of funds on short-term lines of credit (LOC) were significantly less than the cost of funds in KHC's various bond series or Mortgage Backed Securities (MBS) pass-through rates.

It was decided the Corporation should reduce its interest expense by replacing this high-cost bond debt with lower-cost debt, i.e., 400-500 basis points (bps) rather than 50-75 bps. This Delinquent Loan Buyout Program allows the Corporation to take loans that are currently in foreclosure and buy them out of the pools in which they are financed. Many of the loans financed by the Corporation are insured by the U.S. Department of Housing and Urban Development (HUD) Federal Housing Administration (FHA) insurance.

During the foreclosure process, KHC must continue to pay interest to the bond holders or MBS for that loan. Further, HUD will pay to KHC some recovery of this interest expense, but does so at a pre-determined and, lately, a substantially discounted debenture rate. KHC selectively chooses foreclosed loans where the existing financing rate exceeds KHC's cost of funds in a short-term LOC established with a local bank. This arrangement provides the Corporation with the ability to reduce its interest expense on selected mortgage loans and, at the same time, allows the Corporation to recognize some nominal income by the difference in the HUD debenture rate and the LOC interest rate.

The Delinquent Loan Buyout Program is innovative by reducing overall corporate foreclosure expenses and providing the opportunity to offset some losses with income, without exposing the company to additional credit risk. While the program does create some duration mismatch, it is deemed acceptable. Any housing finance agency that services their own HUD-insured loans can duplicate this program, given the short-term liquidity market yield requirements remain low. This program also requires internal liquidity or access to outside financing.

KHC was able to implement this program with very little cost and a significant reduction in debt expense. These outcomes met a corporate strategic goal of increasing profitability, which this program did exceptionally well. After the Delinquent Loan Buyout Program was instituted at KHC, the Corporation began to realize savings of 450 bps, which translates to $45,000 per $1 million per annum. This means, with KHC's portfolio, there was an overall savings of over $1 million a year.