



Louisiana Housing Finance Agency

2008 NCSHA Annual Awards for Program Excellence

Entry Description

Program Name: Insurance Offset Program
Category and Subcategory: Homeownership – Empowering New Buyers
HFA: Louisiana Housing Finance Agency

On August 29, 2005, Hurricane Katrina blew ashore, becoming one of the worst natural disasters on record. Just a short 26 days later, Hurricane Rita took its turn battering the coast of Louisiana. This double-whammy of Mother Nature's fury caused a record amount of destruction. Over 1,400 dead, with 2.2 million people displaced. 24.6 million tons of debris and 204,500 homes damaged or destroyed.

As the Louisiana Housing Finance Agency began to tackle the monumental task of replenishing the state's housing stock, it was faced with another byproduct of the destructive storms. Following the hurricanes of 2005, homeowners' insurance rates rose to all time high levels. These higher rates presented yet another obstacle for returning displaced homeowners.

In the New Orleans area, annual premiums rose by nearly 25% on average. This, coupled with the exponential jump in housing prices due to the post storm shortage, produced a daunting proposition to potential homeowners. The Louisiana Housing Finance Agency worked to develop a plan to combat this situation.

The LHFA Insurance Offset Program was developed by President Milton Bailey and staff as a response. The program utilizes HOME funds to create a subsidy to produce the stated mortgage rate of 4.5%. That rate is then broken down as follows:

- .5% to the Servicer to service the mortgage and to make payments to the mortgage guarantor
- 2.0% is pledged to pay down agency bonds
- 2.0% is put into each borrower's escrow account to assist with insurance payments

"The Insurance Offset Program is a way to responsibly use funds to help those in need. It tangibly addresses the needs of the population described as 'house poor,'" said LHFA President Milton Bailey. "While it may slow the repayment of the agency bonds by redirecting these funds into the homeowners' escrow accounts, that is a tradeoff we accept in the face of this unprecedented scenario."

The program is also structured so that it is not a permanent subsidy. In its current form, the program length is 7 years, with the possibility to renew. Program developers believe this will be a sufficient amount of time for the insurance landscape to normalize in the state of Louisiana. It will also provide an existing framework should another disaster warrant this assistance.

Since its implementation in October of 2006, the program has been very well-received by the agency's financing partners as well as the homeowners. To date, the program has helped 179 families with an average annual subsidy of \$2,034.43.

Cassandra Albers, a single parent of two, from Livingston Parish was one of the families that received this assistance. She had this to say about the program's affect on her life, "I never thought that I could afford a house. But thanks to the LHFA programs, I am much better off personally and emotionally."

"This program is a great example of how new tools are needed to fix new problems," says Bailey. "The LHFA is appreciative to the assistance provided by our financial advisors, bond counsel and master servicer to help develop this innovative approach to addressing this issue."