2014 Entry Form
(Complete one for each entry.)

Fill out the entry name ***exactly*** as you want it listed in the program.

Entry Name Enhanced Loss Mitigation Strategy

HFA Minnesota Housing

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Qualified Entries must be received by **Tuesday, July 1, 2014**.

For more information about Qualified Entries, click here to access the 2014 Entry Rules.

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

HFA Minnesota Housing

Entry Name Enhanced Loss Mitigation Strategy

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

With the bursting of the housing "bubble" in 2008, like many other markets nationally, Minnesota saw dramatic declines in home values and prices. Coupled with the general economic recession and the job losses suffered by many younger homeowners that used Minnesota Housing loan products, we saw increasing levels of delinquency and foreclosure in our whole loan portfolio. Despite our best efforts to apply our existing loss mitigation tools in cooperation with our whole loan servicer, US Bank, these rates continued to rise as the recession intensified, resulting in increasing numbers of displaced homeowners and a high level of Agency loss upon REO liquidation. This was especially the case with conventionally insured and uninsured loans located in neighborhoods that suffered the highest home value declines. At its highest point in June, 2012, Minnesota Housing's average loss in the foreclosure liquidation of conventionally insured loans reached $54,900 statewide, and in high price decline neighborhoods, $65,700.

Since 2008, we had been using an aggressive set of loan modification tools in cooperation with our servicer to help place delinquent borrowers in more affordable products and to keep more first time buyers in their homes and neighborhoods. These modifications included loan deferrals, capitalization of past due interest, extended loan maturity, and interest rate reductions to a bottom rate of 2%. In addition, US Bank collectors used early and repeated phone contact and multiple mailings to gain the attention and interest of delinquent borrowers before past due loan interest and fees became unmanageable. Our modification program was highly successful, running at a 71 – 75% success rate, when national modification programs saw success rates of 50 – 60%. Despite the success rate of our ongoing program, we felt increasing concerns with the high (and rising) rate of REO loss among conventional loans, and the concentration of loss in neighborhoods hit the hardest by the recession, which was typically inner city areas with high minority population concentrations.

Our Research

We decided to look deeper into the characteristics of loans where we saw a high level of loss, hopefully to inform a new course of action with our loss mitigation program. Our research staff executed an analysis of all loans from our whole loan portfolio, where we booked a loss due to foreclosure, short sale, or similar situation – over the period from 2009 to 2011. We felt that this period was particularly relevant as an indicator of probable future loss, as previous years showed a much lower rate of REO gain, and a much lower rate of REO sale loss. We mapped all loans with a booked loss by zip code to determine if losses, both high and low, fell into particular areas of concentration. When cross referencing our data with data on high price decline areas for the general real estate market, we found that our medium to high loss zip codes closely correlated with those decline areas in the general market. Our next step was to look closely at other loan characteristics of the booked loss loans within these zip codes to determine drivers of the highest level of loss, which could then be used to develop a prioritized target list for action. This statistical analysis delivered 4 additional characteristics that seemed to be drivers of loss, beyond property location:

- Originated as a conventional (insured or uninsured) loan
- Originated between 2003 and 2007
- Loan amount between $100,000 and $200,000
- Entry cost assistance, secured with a second mortgage is present

We then applied these characteristics to segment "troubled" loans in our current whole loan portfolio (loans 60+ days past due, including those recommended for foreclosure) to develop a list predictive of potential high REO loss. This list could then be targeted for more aggressive outreach and the potential application of new resources and techniques in offering loan modifications to these targeted borrowers. This list formed the basis for the ELMS program.

Developing ELMS

Upon identification of our target list, we formed an internal group of staff from our portfolio management, finance, research, risk management, and leadership / administration – to brainstorm a new loss mitigation product and process to be used to proactively address these loans identified as high risk for loss. This group developed an initial format for the ELMS program, with these key components:

- Create a new, specialized staff position embedded at the servicer's office to conduct outreach, negotiation, and execution of loan modifications for our target list of borrowers.
- Ensure that this ELMS "specialist" has specialized communication and counseling skills and a familiarity with cultural barriers and issues - to enable more effective outreach and relationship building with our targeted borrowers.
- Use outside financial counseling agencies to help borrowers restructure their budgets; learn new skills for managing their money and break habits that wasted resources in the past.
- Use alternate methods of outreach beyond mail or phone that emphasize face to face meetings to establish a trust relationship with the homeowner.
- In addition to our normal loan modification tools, add principal reduction (PR) as an option to reduce the "underwater" equity position faced by most targeted borrowers in these high price decline neighborhoods, and to help reach a new affordable payment level for the borrower. PR would be capped at 90% of our projected REO sale loss, based on value / broker's price opinion, plus M.I. claim, minus all holding and processing costs in executing the sale.

We then approached our servicing agent, US Bank, to jointly develop the criteria and processes to execute ELMS through their satellite office in Plymouth, MN. We had a strong relationship with US Bank staff and a good experience in working with them to build our initial loss mitigation products in previous years. US Bank staff also had a familiarity with the characteristics of our portfolio, knowledge of the local housing market, and a skilled and experienced staff. The developed ELMS process allowed for coordination and assistance from existing US Bank departments – mostly in underwriting and structuring the modifications – but gave the specialist independence to be more aggressive in outreach techniques, spend the necessary time to develop a relationship with each borrower, and to act as a sole contact for this clientele. We feel that this one on one aspect of the program was key in getting through to borrowers that were more defensive and ignored standard outreach and collection efforts.

Results

The program ran in 2 separate phases with 2 separate target lists of delinquent borrowers. Phase 1 focused on limited, high price decline zip codes, with phase 2 bringing in additional borrowers from the next tier of statistically high decline areas. We solicited 350 delinquent ELMS borrowers in both phases.

- 48 borrowers ultimately closed ELMS loan modifications with PR as a component.
- To date, 77% of these modifications are successful and in a current status.
- 60 additional borrowers agreed to a repayment plan or non-PR loan modification.
- 17 borrowers brought their loans current after contact and counseling without a modification.

These 3 segments represented 125 borrowers (36% of all targeted ELMS borrowers) that were able to retain homeownership as a result of the enhanced outreach and modification tools of the program.

From a financial perspective, we committed $1.6 million in total PR, with an average amount of $33,347 per loan modification. The net PR (after subtracting accrued interest and escrow shortages) was $912K, or $19,008 per loan. If all 48 PR modified loans went to foreclosure, our projected REO loss would be $2.4 million, or an average of $49,662 per property.

From a mission perspective, we were able to retain homeownership for individuals and help stabilize some of the hardest hit neighborhoods in Minnesota. If not for ELMS modifications, many of the properties would, in all probability, have remained vacant for extended periods, potentially becoming blighted, and at best, sold to absentee landlords as converted rental. We found that the application of PR was key in impacting borrower attitude and commitment towards saving their home and meeting their obligations. For some cases, even the offer of PR – whether ultimately delivered or not- was enough to energize their participation. Borrowers indicated that the program gave them the feel of a "fresh start," the promise of some financial stability, and the chance to keep their home and stay in their community.